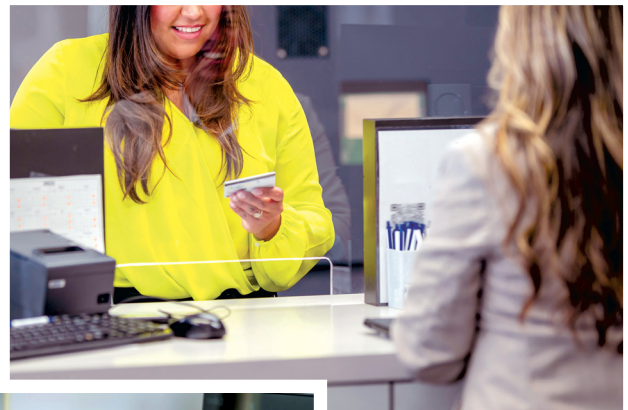




Office of the Auditor General of Ontario

Value-for-Money Audit:
Financial Services
Regulatory Authority:
Regulation of
Private Passenger
Automobile Insurance,
Credit Unions and
Pension Plans



November 2022

Ministry of Finance

Financial Services Regulatory Authority: Regulation of Private Passenger Automobile Insurance, Credit Unions and Pension Plans

1.0 Summary

Well-regulated financial services are important for a strong economy. The Financial Services Regulatory Authority of Ontario (FSRA) is the primary regulator of non-securities-related financial services in the province, including about 60 credit unions/caisses populaires (“credit unions” hereafter), 310 insurance companies, 67,000 insurance agents, and 4,600 pension plans. It is a self-funded Crown agency that is accountable, through the Minister of Finance, to the Ontario Legislature.

FSRA is mandated by the *Financial Services Regulatory Authority of Ontario Act, 2016* to perform a wide range of functions, from promoting the disclosure and transparency of information to deterring deceptive or fraudulent conduct by the entities it regulates. As such, FSRA is responsible for ensuring Ontario’s financial institutions are operating in compliance with relevant laws, regulations and sector-specific rules. However, FSRA by itself does not have the power to make legislative changes over the sectors it regulates (such as

changes to accident benefit coverages in the private passenger automobile insurance sector).

In 2019, FSRA assumed not only the responsibilities of its predecessor organizations—the Financial Services Commission of Ontario (FSCO) and the Deposit Insurance Corporation of Ontario (DICO)—but also the ongoing sector-specific challenges that FSCO and DICO faced. Although we noted that FSRA has greater regulatory authority than its predecessors to levy administrative monetary penalties against entities who do not comply with sector requirements, our audit found that it could do much more in the sectors we reviewed to protect consumers and pension plan beneficiaries and contribute to public confidence.

This audit focused on FSRA’s regulatory activities in the private passenger automobile insurance, credit union and provincially registered pension plan sectors.

In the private passenger automobile insurance sector, despite Ontario having a rate of automobile injuries per one billion kilometres travelled that is lower than most other provinces, Ontario’s average private passenger automobile insurance rate is the highest in the country. FSRA could take action on

initiatives that may help reduce insurance rates, including reducing instances of fraud and waste. FSRA could also establish an updated territory framework for greater equity in insurance rates throughout Ontario. For instance, neither the Ministry of Finance nor FSRA has done significant work to establish an accreditation process for automobile repair shops to minimize fraudulent claims, or address the costly medical assessment process, which at times results in duplicate medical assessments being performed, that occurs in certain accident benefits cases. These factors have resulted in a costlier insurance model for Ontarians and inefficiencies in how the industry operates.

In the credit union sector, FSRA did not inspect credit unions in a timely or thorough manner. For example, its inspections did not always cover all key operating processes, such as how a credit union's board operates. As a result, FSRA may not currently be fully aware of a credit union's operating practices and the changes needed to reduce the risk of fraud or insolvency, thereby reducing its ability to protect credit union members' deposits from being put at risk.

In the provincially registered pension plan sector, changes to better protect multi-employer pension plan (MEPP) members have not been made since 2007. While relatively rare, we noted that members of plans that have been wound up, due to industry downturns, have experienced an unexpected permanent reduction of as much as 77% of the amount of pension benefit that was targeted. Moreover, current disclosure requirements do not make it clear to MEPP members that their benefits are only a target amount, and that the actual benefit they receive could be reduced at any time.

The following are some of our significant findings:

Private Passenger Automobile Insurance

- **Ontario has the highest private passenger automobile insurance premiums in Canada.** Historically, Ontarians have paid the most for private passenger automobile insurance in Canada, and the average premium increased by almost 14% to \$1,642 between 2017 and 2021, double the rate of inflation. Certain initiatives

may enable Ontario's automobile insurance sector to operate more effectively and at a lower cost. For example, like Alberta, Ontario could develop more protocols to treat automobile accident injuries instead of providing cash for those injured to seek their own treatment. Ontario could also follow British Columbia and Saskatchewan in implementing a mandatory licensing or certification regime for automobile repair businesses to protect consumers against poor repairs and fraud. We noted that several reports over the last decade have proposed similar initiatives to improve Ontario's private passenger automobile insurance sector; however, the Ministry of Finance (Ministry) has not provided FSRA with direction to take any significant action on these proposals.

- **FSRA's territorial framework results in individuals paying widely different insurance rates based on where they live.** FSRA provides insurance companies with a territorial framework that outlines how insurers can provide different private passenger automobile insurance premiums to individuals based on where they live in Ontario. However, this has not been updated since 2005. The population of Ontario has increased by about 20% since then, with territories differing in growth rates. We obtained 10 quotes for private passenger automobile insurance for a consumer where the only factor about the person we changed was where they lived in Ontario. Insurance rates for this individual ranged from \$1,200 per year (when the individual lived in London) to \$3,350 per year (when the person lived in Brampton).
- **System makes it difficult for consumers to make informed choices on who to get automobile insurance quotes from.** Insurance brokers work, on a commission basis, with a variety of private passenger automobile insurance companies to provide the lowest quote possible to consumers. FSRA, as part of its review of the Registered Insurance Brokers of Ontario (RIBO), which is the self-regulatory

body for insurance brokerages and insurance brokers, has not taken steps to ensure that RIBO confirms that insurance brokerages comply with the requirement to disclose in private passenger automobile insurance quotes to consumers any financial interests (including ownership) insurance companies have in them. FSRA is also not confirming that RIBO ensures that consumers receive disclosure of the commissions received by insurance brokerages from the insurance companies they work with. We requested private passenger automobile insurance quotes over the phone from a sample of 10 insurance brokerages and found that only one (10%) disclosed both the degree of financial interest in it from any insurance companies and the commissions it receives from the insurance companies it works with. We also reviewed the websites for 50 automobile insurance brokerages in Ontario and found that only 14 (28%) publicly disclosed both the degree of financial interest in them by automobile insurance companies and their commission structure. These disclosures are important for ensuring consumers are informed when determining which insurance brokerage to work with to obtain automobile insurance.

- **FSRA's requests for more authority to effectively regulate the automobile insurance sector have only been partially answered by the Ministry.** In 2019 and 2020, FSRA requested additional regulatory authority from the Ministry, including the power to collect details of fraudulent activity identified by automobile insurance companies. Examples of such fraudulent activity include consumers providing false addresses to obtain cheaper insurance rates; inflated invoices related to towing, storing and repairs; and overstating an injury in the event of an automobile accident. FSRA told us they wanted to better understand where actions to more effectively address alleged fraud in the sector were required, as well as to collect fraud-management plans from automobile insurance companies to assess their adequacy. The Ministry

informed us that the government responded to FSRA's request by introducing legislative changes in September 2022 that give FSRA legislative powers to collect fraud information from the sector. The Ministry has not, however, responded to other requests from FSRA as identified in **Section 4.1.2.**

Credit Unions

- **FSRA's inspections of credit unions did not involve the procedures needed to identify and resolve governance concerns in a timely manner.** We selected a sample of 20 credit union inspections performed by FSRA and noted that eight did not collect fulsome information to evaluate governance processes at the credit union (such as how the credit union's board operates). Further, in four inspections we identified that an issue found in the credit union's previous inspection occurred in the subsequent inspection, even though the credit union's board of directors had provided a written attestation to FSRA that the necessary change had been made. FSRA has not levied any administrative monetary penalties or taken any other enforcement action in such circumstances or when credit unions do not implement the governance recommendations identified through FSRA's assessments, giving little incentive for credit unions to make the identified changes. Given the reduced effectiveness of these inspections, particularly in assessing and correcting deficiencies in the oversight of credit unions' operations, member deposits are put at risk. During the course of our audit, FSRA launched a new inspection framework to oversee credit unions; however, it is still being implemented to fully resolve the above-noted issues.
- **FSRA has only just completed an independent inspection to identify and address changes needed to its inspection process and overall regulatory approach to address the poor governance practices that went undetected by DICO's investigations of PACE Savings and**

Credit Union Limited (PACE). DICO's 2015 and 2017 inspections of PACE failed to identify the credit union's significant governance deficiencies—for example, inappropriate transaction approvals by the Board of Directors, and sales practices in breach of regulations—that were brought to light by a whistle blower employee of PACE. The failure was partly due to DICO inspectors relying on self-reporting by PACE, even though prior inspections had noted issues with PACE's poor internal audit and board governance practices. While FSRA has launched a new inspection framework to oversee credit unions (as mentioned above), it did so prior to completing an analysis of the root causes of the issues that emerged at PACE to determine how the inspection process it uses can be improved to prevent similar inappropriate activities from occurring at other credit unions. The issues identified at PACE resulted in DICO placing the credit union under administration with the intention of changing management and reducing exposure to bad loans. FSRA eventually took over as the administrator of PACE and oversaw its sale to another credit union in June 2022. FSRA agreed to up to \$155 million in additional payments from the Deposit Insurance Reserve Fund (DIRF) to the purchasing credit union, to cover any losses associated with the activities PACE engaged in.

- **The DIRF is not based on comprehensive information on credit unions' actual risks of insolvency and is funded lower than comparable reserve funds in Canada.** The DIRF serves as insurance to protect depositors' eligible deposits from loss in the event of a credit union's insolvency. The DIRF is funded by credit unions' annual fees, which are based on a risk assessment completed by FSRA. We found that FSRA considers only one financial factor when determining these fees, despite collecting dozens of financial indicators for the credit unions it regulates. Our analysis suggests that some credit unions are paying lower premiums into the DIRF than they would be if a comprehensive

set of financial factors were used to determine the annual DIRF fee. For a sample of 10 credit unions that had a perfect (or near perfect) score on this one financial factor, the "capital score", we found that when other key financial performance measures were considered, those credit unions actually performed relatively poorer than credit unions with similar assets and of a similar size. By comparison, British Columbia's credit union regulator uses 10 financial measures to assess the financial performance of a credit union and thereby the associated fee it must pay into the province's DIRF.

Further, FSRA targets the DIRF at 1% of the actual insured deposits held by Ontario-based credit unions (over \$48 billion), but as of June 30, 2022, the DIRF was only funded at 0.79% of insured deposits (\$383 million). Moreover, as mentioned above, the sale of PACE to another credit union could result in payments of up to \$155 million against the DIRF. If all these payments are eventually made, the DIRF will only have remaining funds of \$228 million, or about 0.47% of insured deposits. As eligible deposits in Ontario credit unions are only insured subject to funding available in the DIRF, it is possible that the DIRF does not have the necessary funds to cover future claims in relation to a credit union's insolvency.

Provincially Registered Pension Plans

- **FSRA and the Ministry have not clearly communicated the risk to plan members of multi-employer pension plans (MEPPs) that they may not receive their full targeted pension benefits.** Over one million Ontarians (about 25% of all Ontario pension plan members) are members of provincially registered defined benefit (DB) MEPPs—plans where members may be employed by multiple employers throughout their career. This is a common pension plan structure for tradespeople. In other DB plans, plan sponsors (employers) are obligated to provide the level of benefits (pension income) that members are promised to receive.

However, unlike other DB plans, MEPPs generally only establish a *target* benefit level that may be reduced instead of providing a fixed level of pension income. Because of this, these plan members are at risk of not receiving their full targeted pension benefits. Also, in 2007, the Ministry enacted a rule that MEPPs could choose to no longer be funded on a solvency basis (funded so that if a plan was wound up, it would have enough assets to pay all pension benefits). Around that time, MEPPs were on average funded at 93% on a solvency basis. The 2008 expert commission on pensions recommended that new legislation should be developed concerning the funding, regulation and governance of MEPPs. Related legislation to address this was passed between 2010 and 2020; however, these provisions remain unproclaimed and are currently not in force, while the rule allowing certain MEPPs to elect to no longer be funded on a solvency basis remains in place. As of June 30, 2022, we found that MEPPs were funded on average 74% on a solvency basis (or only have on average 74% of the necessary assets to pay all targeted pension benefits), with some MEPPs having as low as 43% of the necessary assets to pay all targeted pension benefits. Since 2001, two MEPPs have been wound up due to downturns in their industry, meaning these plans ceased to receive contributions and paid out benefits to members based solely on available assets. In one case, this represented a permanent reduction of 77% of the targeted pension income. The *Pension Benefits Act* currently does not require MEPPs to disclose to members that their plan benefits could be reduced at any time (to meet minimum funding requirements of the plan), or communicate the likelihood or impact of the MEPP being wound up.

- **FSRA performs fewer inspections of pension plans than FSCO did, and does not assess the accuracy of the information provided to it despite FSCO finding that over a quarter of inspected plans reported inaccurate**

information. During its administration, FSCO performed about 55 on-site inspections of pension plans each year, whereas FSRA performed in-depth reviews of 18 pension plans in 2021/22. These reviews focused on collecting information on how the plan sponsor intended to improve the plan's solvency and were not designed to detect instances of a pension plan administrator submitting inaccurate information. However, between 2013 and 2016, FSCO found that 28% of pension plans it inspected had provided it with incorrect information in their required statutory filings, such as the amount contributed into a plan by the sponsoring employer. FSRA's ability to accurately assess the risk of a plan sponsor going insolvent is directly impacted by the accuracy of the information it receives for analysis. As of September 2022, FSRA initiated a pilot project to perform more thorough examinations of pension plans, including verifying that information it receives from pension plans is accurate. However, at the time of our audit no examinations had been completed through this pilot.

- **FSRA takes limited action when pension plans do not comply with information submission requirements.** In each of the past three fiscal years, about 718 pension plans submitted a total of 1,058 required filings late. In these cases, FSRA has the authority under the *Pension Benefits Act* to take enforcement actions such as levying administrative monetary penalties (AMPs). However, since its inception, FSRA has taken only 22 enforcement actions—issuing 17 warning letters and five compliance orders. If it had levied AMPs against the late filers, it could have charged penalties to active pension plans of approximately \$47 million. FSRA could have used some of this funding for research or education initiatives (such as improving MEPP members' understanding of where they are at risk of not receiving the amount of pension benefits targeted, as discussed above).

- **FSRA lacks certain powers that would allow it to more effectively regulate pension plans and protect members.** We identified that FSRA lacks important regulatory powers that other regulators of pension plans have, including the regulator of federal pension plans in Canada, and a federal regulator of pension plans in the US. These powers include the ability to require plan sponsors to inform the regulator of certain events that may be harmful to plan members (such as if a pension plan sponsor defaults on a loan), and the ability to access non-public information (including financial information) from plan sponsors. Having these powers would allow FSRA to better identify and respond to risks that could result in pension benefits being reduced for pension plan members.

FSRA's Reporting on Performance

- **Useful performance measures to evaluate FSRA's performance as a regulator are lacking.** FSRA does not sufficiently track and report on its performance such that the public can assess how effective FSRA is in achieving its mandate to regulate the private passenger automobile insurance, credit union and provincially registered pension plan sectors. For example, across these regulated sectors, FSRA does not report on the target and actual number of inspections performed of regulated entities, the percentage of those entities that implemented all inspection recommendations within a specified time period, and the percentage of entities who missed a regulatory filing deadline. We noted that other jurisdictions (such as British Columbia and Alberta) have implemented more useful performance measures for the regulation of their automobile insurance sectors.

This report contains 18 recommendations, with 60 action items, to address our audit findings.

Overall Conclusion

Our audit concluded that the Financial Services Regulatory Authority of Ontario (FSRA) continues to be a work in progress and needs to accelerate its efforts to fully protect consumers, thereby increasing public confidence in the sectors we reviewed: private passenger automobile insurance, credit unions and provincially registered pension plans. As well, FSRA is not effectively measuring and publicly reporting on its effectiveness in achieving its mandate, such as publishing the number of investigations it plans to perform and how many it actually performs annually in each sector.

In the private passenger automobile insurance sector, automobile insurance rates increased at a rate greater than inflation under the predecessor regulator and FSRA's actions to date have not significantly reduced the high cost of automobile insurance or provided Ontarians with equitable insurance rates. Ontarians pay private passenger automobile insurance rates that depend on where they live in the Greater Toronto Area and throughout Ontario. Other areas we have identified where action could be taken include establishing an accreditation process for automobile repair shops who want to perform repairs paid for by automobile insurance, and implementing treatment protocols to facilitate better care for automobile accident victims at a lower overall cost by providing them with treatment instead of cash.

In the credit union sector, FSRA's inspection process did not identify and resolve governance issues in credit unions in a timely manner. Credit unions are not being regularly investigated within an established time frame, investigations did not cover each key governance area of the credit union, and past inspection findings identified as resolved by credit unions' board of directors were occurring again on subsequent inspections. Due to the reduced effectiveness of these inspections, particularly in assessing and correcting deficiencies in the oversight of credit unions' operations, member deposits are put at risk. In addition, we found that the Deposit Insurance Reserve Fund (DIRF)—a fund that insures credit union depositors'

eligible deposits from loss in case of a credit union's insolvency—is currently funded below FSRA's target.

In the provincially registered pension plan sector, we found that FSRA and the Ministry of Finance (Ministry) have not protected multi-employer pension plan members from the risk of a significant and permanent reduction to their targeted pension benefits. In addition, FSRA and the Ministry are not ensuring that pension plan administrators are transparent with their members about the fact that their pension benefits can be reduced at any time.

OVERALL RESPONSE FROM THE FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

FSRA acknowledges and accepts the recommendations of the Auditor General, some of which reflect initiatives already planned for or underway at FSRA. We believe that these initiatives, when complete, will substantially address the Auditor General's recommendations.

FSRA was established to take over the responsibilities of FSCO and DICO following a review of the mandates of FSCO/DICO by a government-appointed Expert Panel that made numerous recommendations intended to create a more effective regulator with enhanced powers and more effective governance by having a skills-based Board of Directors. While FSRA has been given, and has in some cases already used, new regulatory and supervisory tools such as rule-making, as identified by the Auditor General, FSRA lacks regulatory authority in a number of areas, such as the automobile insurance and pension sectors, and looks forward to working with the government to address these policy matters to improve consumer protection and public confidence.

Despite a pandemic within a year following its June 2019 launch and the need to recruit new employees, FSRA has made important strides in its first 1,000 days, including:

- the enactment of the new Unfair or Deceptive Act or Practices Rule, which has given FSRA greater

ability to define proper industry practices based on actual outcomes for insurance consumers;

- the enactment of three new rules in the credit union sector to improve prudential oversight and regulatory effectiveness;
- a new sector-wide whistle-blower program;
- a new inspection framework for credit unions;
- revitalization of our conduct supervisory practices and focus;
- a new risk-based approach to supervision for pensions; and
- building a new culture and hiring over 200 staff.

FSRA has also begun to change the regulatory oversight model for Ontario financial services it inherited by implementing a principles-based, outcome-focused approach to supervision and enforcement. This has required a fundamental shift in assessing regulatory effectiveness, one that does not focus on the number of inspections or the amount of administrative penalties imposed but by carefully assessing the regulatory and public protection outcomes based on evidence and relevant data.

FSRA agrees with the Auditor General that many systems which FSRA assumed remain outdated, impeding FSRA's ability to be proactive and efficient. That is why FSRA is investing over \$30 million revamping its systems. This includes upgrading portal and data systems to make them more efficient and ensuring that FSRA generates information that informs its regulatory strategy by measuring outcomes. There is still work to be done.

2.0 Background

2.1 Overview

The Financial Services Regulatory Authority of Ontario (FSRA) is a key regulator of several financial services in Ontario. Specifically, it has authority over non-capital market financial services including credit unions, automobile insurance and provincially registered pension plans. It does not regulate the securities sector, which falls under the supervision of the Ontario Securities

Commission, nor banks, which are regulated federally by the Office of the Superintendent of Financial Institutions (OSFI). **Figure 1** shows which financial services and entities FSRA and OSFI regulate.

FSRA's revenue comes from licensing and other fees charged to the entities it regulates as well as activity fees, such as fees related to renewing existing licences. In 2021/22, FSRA collected approximately \$104 million in revenue and had over \$93 million in total costs. FSRA is overseen by its Board of Directors and the Minister of Finance.

See **Appendix 1** for a glossary of terms.

2.2 History

In 2019, FSRA officially assumed the responsibilities of two predecessor organizations through an amalgamation with the Deposit Insurance Corporation of Ontario (DICO) and the transfer of certain operations and business from the Financial Services Commission of Ontario (FSCO) via a Minister's Transfer Order.

Appendix 2 provides a timeline of events preceding the creation of FSRA.

2.3 Financial Services Regulatory Authority

As identified in **Figure 1**, FSRA regulates a number of sectors including the credit union, insurance (which includes private passenger automobile insurance) and provincially registered pension plan sectors. Per the *Financial Services Regulatory Authority of Ontario Act, 2016* (FSRA Act), FSRA's legislative mandate for these sectors is to, amongst other things:

- regulate and generally supervise the sectors;
- contribute to public confidence;
- monitor and evaluate developments and trends;
- promote public education and knowledge;
- promote transparency and disclosure of information; and
- deter deceptive or fraudulent conduct, practices and activities (of regulated entities).

Figure 1: Financial Services Regulation in Ontario

Prepared by the Office of the Auditor General of Ontario

Regulated by FSRA	Regulated by FSRA and OSFI ¹	Regulated by OSFI
<ul style="list-style-type: none"> • Co-operative corporations • Credit unions • Financial planners and financial advisors • Health-care service providers³ • Insurance agents • Mortgage administrators • Mortgage brokerages • Mortgage brokers and agents • Provincially registered pension plans 	<ul style="list-style-type: none"> • Insurance companies • Loan and trust companies 	<ul style="list-style-type: none"> • Banks • Federally registered pension plans²

Legend: FSRA—Financial Services Regulatory Authority of Ontario; OSFI—Office of the Superintendent of Financial Institutions

Note: Please see **Appendix 1** for the definitions of some of these financial services, entities and participants.

1. OSFI regulation of these entities generally relates to conducting prudential reviews (to assess the entities' financial soundness), while FSRA generally licenses entities that operate within the province and regulates their operations and market conduct.
2. Federal pension plans are federal public service pension plans and federally registered pension plans for certain industries such as airlines and banks. Provincial pension plans relate to provincially registered pension plans operating in Ontario.
3. FSRA regulates health-care service providers that provide services to automobile accident victims and directly bill insurance companies for these services.

Figure 2: Type and Size of Sectors Regulated by FSRA

Source of data: Financial Services Regulatory Authority of Ontario

Sector	Type of Entities/Persons Regulated	# of Regulated Entities/Persons as of June 30, 2022
Co-operative Corporations	Co-operatives offering statements ¹	1,740
Credit Unions	Financial institutions	61
Financial Planners and Financial Advisors	Credentialing Bodies ²	4
Insurance	Automobile insurance companies	167
	Registered insurance agents	67,310 ³
	Life and health insurance companies	95
	Property and casualty insurance companies	218
	Health-care service providers	4,884
Loan and Trust	Companies offering loans and trust services	52
Mortgage Brokering	Mortgage brokerages	1,250
	Mortgage brokers	2,953
	Mortgage agents	15,514
	Mortgage administrators	242
Pension Plans	Defined benefit or defined contribution plan administrators	4,632 ⁴

1. The only responsibility the Financial Services Regulatory Authority of Ontario (FSRA) has in relation to co-operatives (co-ops) is reviewing and issuing receipts for (or approving) offering statements related to the raising of capital by co-ops that have more than 35 members or will have more than 35 members/investors involved with the offering. FSRA reviews the offering statements to confirm that they comply with the requirements of the Co-operative Corporations Act, including determining if all necessary disclosures are made.
2. Under the title protection framework that came into effect on March 28, 2022, FSRA approves certain entities, such as credentialing bodies, to offer approved Financial Planner and Financial Advisor credentials in Ontario.
3. This number comprises 10,725 general insurance agents; 14,111 sponsored life insurance agents; 949 accident and sickness insurance agents; and 41,525 life insurance, accident and sickness insurance agents.
4. Of this total, 1,787 are defined benefit plans and 2,845 are defined contribution plans.

Figure 2 shows the entities and individuals as well as the size of the sectors that FSRA regulates as of June 30, 2022.

2.3.1 Organizational Chart

Appendix 3 shows FSRA's organizational chart as at June 30, 2022. After FSRA's inception, 299 full-time-equivalent staff (FTEs) were transferred from the legacy organizations FSCO and DICO to FSRA. Subsequently, FSRA hired an additional 237 FTEs, and had a total of 536 FTEs as of June 30, 2022.

2.3.2 Board of Directors and Committees

The FSRA Act provides that FSRA's Board of Directors be composed of three to 11 directors to provide oversight of FSRA. At the time of our audit, nine directors were on the Board. Directors are appointed by the Lieutenant Governor in Council on the recommendation of the Minister of Finance in accordance with the Agencies and Appointments Directive, which sets out rules for provincial agencies, short-term advisory bodies and special advisors. The Lieutenant Governor in Council may remove a director from office at any time.

To help fulfill its mandate relating to policy and rule development, FSRA established six stakeholder and 15 technical advisory committees. The stakeholder advisory committees are committees established to gather

information on the regulation of the various sectors and industry trends. While some are permanent, the technical advisory committees are generally short-term or temporary committees created to provide FSRA with expert advice on specific topics of importance to the sector. Most of these committees will dissolve once their work is completed. See **Appendix 4** for a list of the committees active as of June 30, 2022, and the matters they advise on. FSRA also has a Consumer Advisory Panel which provides the consumer perspective to inform FSRA's work.

2.3.3 Overview of Key Activities

While the specific activities FSRA performs in each sector it regulates can differ, FSRA conducts some common activities across sectors including: rule-making, registration, licensing, information collection, reviews, inspections and enforcement. See **Appendix 5** for more details of these activities, and **Figure 3** for enforcement actions taken by FSRA for the years 2019/20–2021/22 in the insurance, health-care service provider, credit union and provincially registered pension plan sectors.

2.3.4 Funding and Financial Information

FSRA is a self-funded organization. It obtains revenues from licensing and other fees it charges regulated entities. FSRA also charges fees when participants file documents such as incorporation and renewal applications, and imposes administrative monetary penalties on participants for non-compliance with legislation.

For the 2021/22 fiscal year, FSRA had a net income of about \$11 million. **Figure 4** shows FSRA's revenue and expenses by item/sector, for the years 2019/20–2021/22. About 62% of FSRA's annual revenue and expenses come from the automobile insurance, credit union and provincially registered pension plan sectors.

2.3.5 Ministry of Finance

The Ministry of Finance (Ministry) is responsible for setting policy direction for the regulated financial services sectors in Ontario, and for establishing the legislative framework to implement that policy direction. The Ministry provides policy research, analysis and advice in support of the Province's objectives in regulating these sectors.

Figure 3: Enforcement Actions Taken by FSRA, 2019/20–2021/22

Source of data: Financial Services Regulatory Authority of Ontario

Enforcement Action	2019/20 ¹	2020/21	2021/22	3-Year Total
Warning notices	1	0	1	2
Citation or caution letters	1	72	70	143
Warning letters	24	234	643	901
Compliance orders (including cease and desist orders)	2	1	1	4
Licence suspensions	2	3	63	68
Licence revocations	7	0	171	178
Licence refusal/denials	2	2	4	8
Other ²	0	2	19	21
Total	39	314	972	1,325
Administrative monetary penalty (AMP)				
Number	4	4	12	20
Amount (\$)	11,500	13,000	171,750	196,250

Note: Includes enforcement actions taken by FSRA in the insurance, health-care service provider, credit union, and provincially registered pension plan sectors.

1. From June 8, 2019 to March 31, 2020.

2. Includes amending a licence or imposing conditions on a licence.

Figure 4: FSRA's Revenue and Expenses by Item/Sector, 2019/20–2021/22 (\$ 000)

Source of data: Financial Services Regulatory Authority of Ontario

Item/Sector	2019/20	2020/21	2021/22	3-Year Change (%)
Revenue				
Insurance	35,848	43,355	44,264	23
Pension plans	21,760	26,253	25,843	19
Credit unions	10,748	13,067	15,680	46
Mortgage brokers	8,937	14,384	17,350	94
Loans and trusts	218	57	107	(51)
Financial advisors and financial planners	0	0	35	n/a
Corporate ¹	759	541	640	(16)
Total Revenue	78,270	97,657	103,919	33
Expenses				
Insurance	28,826	43,079	41,964	46
Pension plans	16,934	27,994	25,828	53
Credit unions	7,300	11,189	13,394	83
Mortgage brokers	9,057	14,644	12,114	34
Loans and trusts	131	67	98	(25)
Financial advisors and financial planners	0	90	1,915	n/a
Corporate	8,259	2,444	2,056	(75)
Subtotal	70,507	99,507	97,369	38
Less: Recoveries ²	(3,749)	(4,832)	(3,845)	3
Total Cost	66,758	94,675	93,524	40
Add: Restructuring transactions	797 ³			(100)
Excess/(Deficiency) of Revenues over Expenses	12,309	2,982	10,395	(16)

1. Fees for reviewing co-operative corporations are included here. However, this revenue source is minimal as the Financial Services Regulatory Authority of Ontario (FSRA) charges \$50 to review an offering statement and has reviewed no more than 13 such statements a year since inception.

2. This relates to the recovery of administrative services from a number of organizations including the Motor Vehicle Accident Claims Fund (a fund for uninsured individuals in accidents administrated by the Ministry of Government and Consumer Services) and the Financial Services Tribunal.

3. This amount represents the net value of assets and liabilities of the Financial Services Commission of Ontario and the Deposit Insurance Corporation of Ontario on June 8, 2019 (the day after they ended their regulatory activities) that were not transferred to FSRA.

The Minister of Finance (Minister) is responsible for administering the FSRA Act as well as the *Credit Unions and Caisses Populaires Act, 2020* (Credit Union and Caisse Populaire Act), the *Insurance Act* and the *Pension Benefits Act*.

An MOU establishes the accountability relationship between the Minister and FSRA through FSRA's Board of Directors and Chair in areas such as administration, communications and operations. It also outlines reporting requirements to the Minister, including submitting an annual business plan, an annual report and annual

attestation of compliance with legislation and applicable directives.

2.4 Sector Overview

2.4.1 Automobile Insurance

FSRA regulates insurance companies and insurance agents for compliance with the *Insurance Act* and the requirements of their licence. FSRA also licenses health-care service providers (such as physiotherapists) who directly bill insurance companies for providing services to people injured in automobile accidents.

The majority of Ontarians have some form of automobile insurance. In 2021, property and casualty insurance companies, which offer both automobile and property insurance, among other insurance products, billed over \$30 billion in insurance premiums (\$16 billion or 53% was for automobile insurance) in Ontario and incurred approximately \$15 billion in direct insurance claims. Automobile insurance is mandatory. In 2021, FSRA regulated over 164 automobile insurance companies and over 66,000 insurance agents (including those who sell life and health and/or property and casualty insurance, which may include insurance for automobiles, houses and other properties). In 2021, 12 insurers wrote about 95% of the insurance premiums in Ontario, as shown in **Figure 5**.

FSRA approves applications from automobile insurance companies seeking to change the rates they use to calculate the premiums charged to their private passenger automobile (PPA) customers. FSRA also approves the companies' customer rating variables and rating algorithm. PPA customers are those who obtain insurance for personal reasons. Non-PPA premiums are made up of other categories of drivers including company fleets, commercial vehicles (e.g., trailers) and ATVs. It is up to an insurance company to determine if or when it wants to request a change in rates. If it is requesting rate changes, it must provide FSRA with detailed information on its reasoning and planned change(s). FSRA can deny all or part of an application.

Most provinces and territories in Canada (including Ontario) use a private model to sell automobile insurance to customers, where insurance companies (such as Intact or Aviva) are overseen by a regulator, such as FSRA in the case of Ontario. British Columbia, Manitoba and Saskatchewan operate under a fully public model for automobile insurance, where a government Crown corporation is the insurer with insurance sold through brokers or directly to customers. Quebec has a hybrid system with personal injury coverage delivered through the public system and vehicle damage coverage delivered through the private system.

As shown in **Figure 6**, Ontario has the same minimum amount of liability insurance as most other provinces (at \$200,000). The basic accident benefits

Figure 5: Participants in the Automobile Insurance Sector in Ontario, by Size and Percentage of Written Premiums, for the Year Ended December 31, 2021

Source of data: Financial Services Regulatory Authority of Ontario

Company/ Insurance Group	2021 Written Premiums (\$ million)	Share of Sector (%)
Intact	2,581	19.74
Desjardins	2,052	15.69
Aviva	1,576	12.05
TD	1,363	10.42
Allstate	1,120	8.56
Co-operators	1,018	7.78
Economical/Definity	932	7.13
CAA	574	4.39
Travelers	395	3.02
Wawanesa	394	3.01
Gore Mutual	214	1.64
Northbridge	197	1.51
Total of all others	661	5.05
Total	13,077	100

Note: This chart reflects personal passenger automobile premiums (not commercial).

Ontario insurers are required to cover are lower in most categories than those of public delivery provinces, but Ontario has more generous basic accident benefits than those of all private delivery provinces. As shown in **Figure 7a**, Ontario has had the highest average premium compared with all Canadian jurisdictions with a private insurance model over the past five calendar years (2017 to 2021). As well, in **Figure 7b**, we noted that Ontario's percentage increase in year-over-year average premiums was lower in the last two comparative years than that of most other provinces with a private insurance model.

We also noted that Ontario's automobile injury rate per one billion kilometres travelled has generally been lower than other provinces. For example, in 2019, Ontario's injury rate of about 308 accidents per one billion kilometres was lower than all other provinces except New Brunswick, Saskatchewan and Alberta. In 2020, Ontario's injury rate of about 238 accidents per

Figure 6: Monetary Limits of Liability and Accident Benefits in Canadian Provinces (\$ 000), as of December 31, 2021

Source of data: Financial Services Regulatory Authority of Ontario

Province	Delivery Model	Liability (Minimum)	Medical Care (Non-Catastrophic) ¹	Medical Care (Catastrophic) ¹	Minor Injury Caps	Income Replacement (Annually)	Death – Spouse (Maximum)	Death – Dependent (Maximum)	Funeral (Maximum)
SK (no fault)	Public	200,000	7,397,579	7,397,579	7,397,579	105,430	105,430	105,430	11,094
SK (tort)	Public	200,000	28,952	217,139	28,952	24,544	105,430	105,430	7,238
BC	Public	200,000	172,154 ²	271,834 ²	5,830	105,500	517,500 ³	61,680	9,386
MB	Public	200,000	100,000	100,000	100,000	103,500	540,000	59,657	9,293
QC	Hybrid ⁴	50,000	10,000,000	10,000,000	10,000,000	88,000	440,000	66,363	7,500
NS	Private	500,000	50,000	50,000	9,300	13,000	25,000	5,000	2,500
ON	Private	200,000	65,000	1,000,000	3,500	20,800	25,000	10,000	6,000
NB	Private	200,000	50,000	50,000	8,638	13,000	25,000	5,000	2,500
PEI	Private	200,000	50,000	50,000	8,358	13,000	25,000	5,000	2,500
AB	Private	200,000	50,000	50,000	5,488	20,800	10,000	3,000	6,150
NL	Private	200,000	25,000	25,000	5,000	7,280	25,000	2,000	1,000

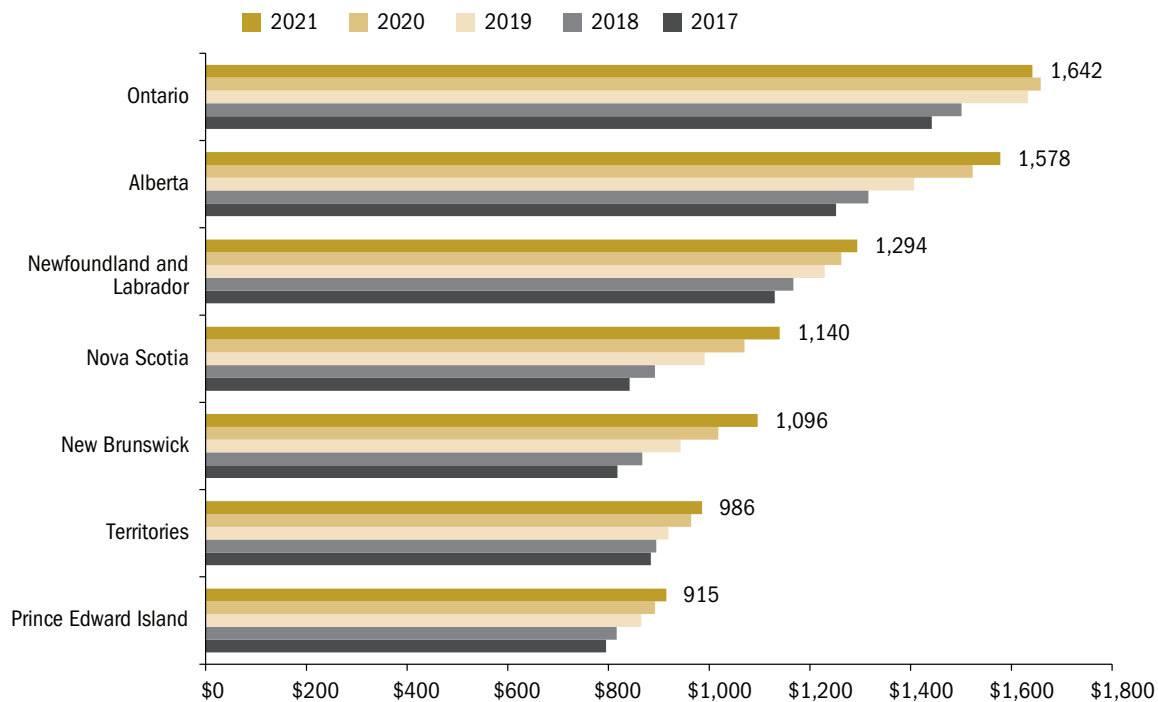
– Indicates arbitrary figures where there is no statutory maximum.

– Indicates indexed figures.

1. A medical practitioner will assess the type of injury that has occurred, which can range from a minor injury (such as a sprain or strain) to catastrophic (such as an amputation or severe impairment of limbs).
2. Represents a lump sum amount for permanent injury; \$7,500,000 also available for medical expenses with limits on heads of recovery.
3. Figure based on highest possible benefit as a function of age and income, where a 45-year-old with capped insurable income receives the maximum benefit.
4. Quebec operates under a hybrid model, whereby personal injury coverage is delivered through the public system and vehicle damage coverage is delivered through the private system.

Figure 7a: Average Premiums among Private Automobile Insurance Systems in Canada, by Province/Territories¹, 2017–2021

Source of data: General Insurance Statistical Agency (GISA)²

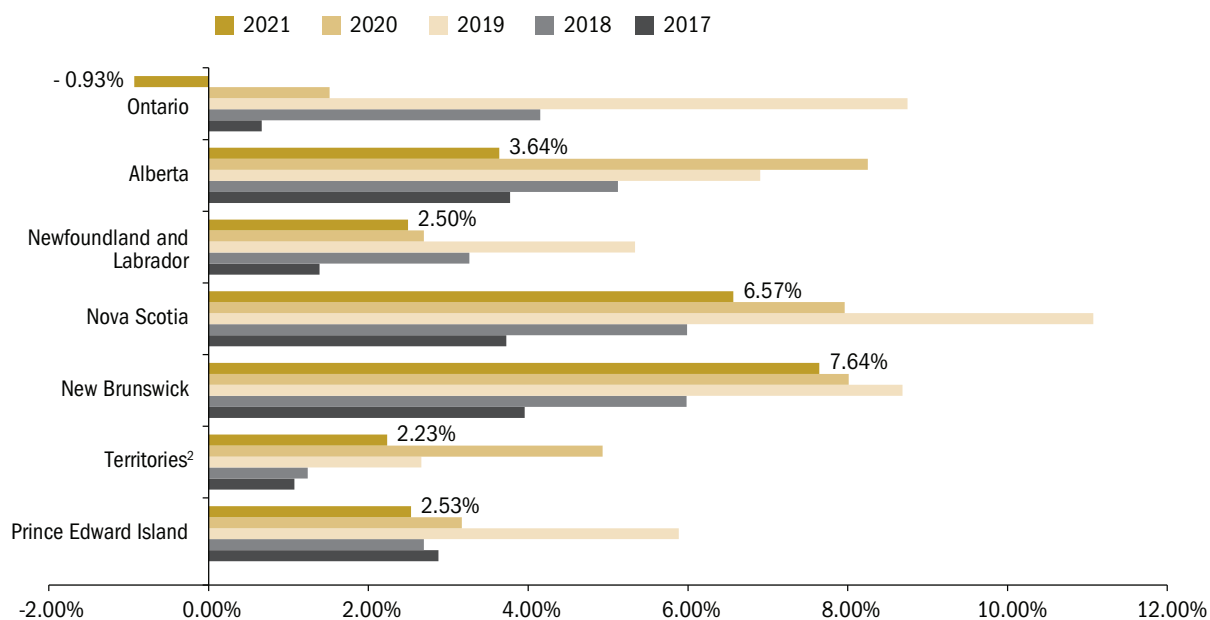


1. Comprises the Northwest Territories, Nunavut and Yukon.

2. GISA only collects five-year information on private automobile insurance systems (not public automobile insurance systems). In 2020, FSRA collected information on average premiums among provinces with public automobile insurance systems, including British Columbia (\$1,544), Manitoba (\$1,283), Saskatchewan (\$1,235), and Quebec (\$798). This shows that Ontario had the highest average premiums in 2020 (\$1,658) when compared to all provinces, regardless if that province had a private or public automobile insurance system.

Figure 7b: Year-Over-Year Percentage Change in Average Premiums among Private Automobile Insurance Systems in Canada, by Province/Territories¹, 2017–2021

Source of data: General Insurance Statistical Agency (GISA)²

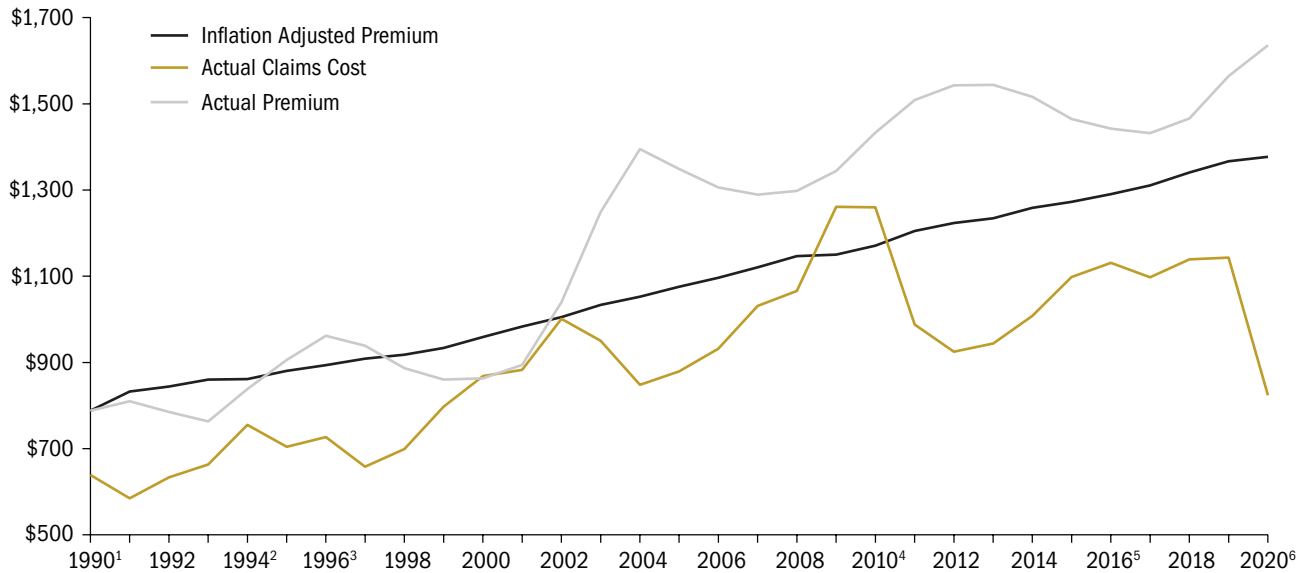


1. Comprises the Northwest Territories, Nunavut and Yukon.

2. GISA only collects five-year information on private automobile insurance systems (not public automobile insurance systems).

Figure 8: Ontario Automobile Insurance Premiums (Actual and Inflation Adjusted) and Claims Costs, 1990–2020

Source of data: Financial Services Authority of Ontario



Note: Details of major changes to automobile insurance rules and regulations since 1990, which have impacted premiums and claims costs, can be found in **Appendix 6**.

1. Rising tort costs lead to the creation of a no-fault structure.
2. A comprehensive no-fault structure is developed following a review of public automobile insurance.
3. The sector moves away from a comprehensive no-fault system, providing consumers with greater access to courts and more options.
4. Rising accident benefit costs lead to significant changes in accident benefit levels and assessments as well as more consumer choice.
5. Significant changes are made to accident benefits, more options are provided to consumers, restrictions in tort increase, and anti-fraud measures are developed.
6. In April 2020, FSRA issued guidance that included the means for insurers to voluntarily offer emergency rate reductions and premium rebates to consumers after the declaration of the COVID-19 pandemic. This led to insurers (55 in total, including the 12 largest automobile insurance companies at the time) providing over \$1.8 billion in premium rebates to consumers as of September 2022.

one billion kilometres was lower than all other provinces except Alberta.

Ontario's automobile insurance landscape has changed dramatically since 1990. **Figure 8** shows the impacts of reforms of insurance premiums and claims costs (impacted by eligibility, maximum benefit limits and torts). Actual premiums between 2002 and 2020 have been increasing higher than the rate of inflation. **Appendix 6** provides further details on automobile insurance sector reforms made since 1990.

Premium Rebates due to COVID-19

In April 2020, FSRA issued guidance that included the means for insurers to voluntarily offer emergency premium rate reductions and rebates to consumers after the COVID-19 pandemic was declared. This guidance set the way for insurers to voluntarily reduce rates and provide consumers with financial relief in the amount of over \$1.8 billion in premium rebates as

of September 2022. However, we noted that overall, private passenger automobile insurance companies exceeded the 5% profit provision target set by FSRA in both 2019 (at 7.7%) and 2020 (at 27.6%, a vast increase). FSRA stated that it appears insurers likely could have offered more rebates or rate reductions to their customers during the height of the COVID-19 pandemic.

FSRA did not mandate pandemic relief for a number of reasons, including the uncertainty of the length of the pandemic, the differing financial positions of insurance companies, and the fact that FSRA does not have statutory authority to order insurance companies to immediately make reductions and issue rebates. It has analyzed the impact of rate reductions, rebates and other actions taken by insurers through a number of sources, including internal data which tracks the monthly average premium in Ontario throughout the pandemic. We noted that even while considering

these relief options, the gap between the premium charged and actual claims costs incurred in 2020 was significant.

FSRA did track which insurance companies implemented emergency rate reductions. From April 1, 2020 to April 1, 2022, FSRA approved 108 emergency rate reductions and 45 emergency premium rebates. FSRA publicly reported which insurance companies participated in these rebates, and we noted that 55 insurance companies participated.

2.4.2 Credit Unions and Caisses Populaires

A credit union provides similar financial services to banks (such as deposit taking) primarily for its members on a co-operative basis, as defined by the Credit Union and Caisse Populaire Act. Although historically these financial institutions have been owned by members who may share a common bond of association, such as occupation or religious/ethnic background, this structure has been evolving as many people now join credit unions based on them being conveniently located where they live and/or because they offer financial products at competitive rates. Caisses populaires are francophone credit unions that promote the interests of French-speaking communities in Ontario and provide financial services in French. Membership in a credit union is governed by the credit union's bylaws, subject to the provisions of the Credit Union and Caisse Populaire Act.

A credit union's business is carried on primarily for the benefit of its members. Any net income that accrues from its business may be used for various activities such as to provide additional services for its members; develop its business; or distribute the net income to its members and shareholders, for example, by paying dividends such as patronage dividends, which are partially based on how much of a credit union's services or products each shareholder used.

FSRA is responsible for the regulation and oversight of the approximately 60 credit unions that operate in Ontario. A credit union may come under FSRA's administration (where FSRA takes over its management) when it is at risk of insolvency and "when serious improvements are needed when the Credit Union's business operations or circumstances potentially put depositors at risk" (as stated in FSRA's Supervisory Framework under Intervention Guidelines).

As of June 30, 2022, Ontario's credit unions held a total of about \$69 billion in member deposits. As of December 31, 2021, the sector employed about 8,000 staff and served about 1.7 million Ontarians through 573 locations.

As per **Figure 9**, from 2012/13 to 2021/22, the number of credit unions in Ontario declined by 52% (from 127 to 61) because of consolidation in the sector, while average member deposits held by each credit union increased 363% over the same time period (from \$235 million to almost \$1.11 billion). In 2020 alone,

Figure 9: Credit Union Sector Participants and Total Deposits, 2012/13-2021/22

Source of data: Financial Services Regulatory Authority of Ontario

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	10-Year Change (%)
Number of Credit Unions	127	117	110	99	93	78	77	62	61	61	(52)
Total Deposits* (\$ billion)	29.9	32.3	34.3	36.8	41.4	45.7	50.9	55.6	62.1	66.5	134
Avg Deposits (\$ million per credit union)	235	276	312	372	445	586	661	897	1,018	1,090	363

* About 70% of total deposits are insured subject to funding in the Deposit Insurance Reserve Fund. Deposits in an Ontario credit union are insured for each credit union member to a maximum of \$250,000 for non-registered accounts (such as savings and chequing accounts) and to the full amount of the deposit for registered accounts (such as registered retirement savings plans and tax-free savings accounts).

Figure 10: Credit Unions In Ontario by Total and Insured Deposits, as a Percentage of Total Sector, as of June 30, 2022

Source of data: Financial Services Regulatory Authority of Ontario

Credit Union	Total Deposits (\$ million)	Total Insured Deposits (\$ million)	Share of Sector by Total Deposits (%)
13 Credit Unions with >\$1 Billion in Deposits			
Meridian	17,498	11,623	25
Caisse Desjardins	6,649	4,140	10
DUCA	5,353	2,921	8
Alterna	5,212	3,940	8
Libro	5,036	3,640	7
FirstOntario	4,589	3,194	7
Windsor Family	3,307	1,741	5
CP Alliance	1,927	1,493	3
Kawartha	1,821	1,638	3
Your Neighbourhood	1,729	1,398	3
Kindred	1,671	1,116	2
Northern	1,504	1,307	2
Tandia	1,126	818	2
Total – Top 13 Credit Unions	57,421	38,969	83
Total – 30 Credit Unions with Deposits Between \$100M–\$1B	10,943	8,725	16
Total – 17 Credit Unions with Less than \$100M in Deposits	674	565	1
Total – 60 Credit Unions^{1,2}	69,037	48,260	100

1. Excludes PACE Savings and Credit Union Limited (PACE) as, at the end of June 2022, assets of PACE were purchased by (and are reported under) Alterna. As of June 30, 2022, there were 61 credit unions including Lighthouse Credit Union. However, Lighthouse Credit Union's assets have not been included in the list above as it has only started operations (its first deposits were processed in early July 2022) and its first monthly filing was expected in August 2022.
2. In total, about 70% of deposits held by Ontario credit unions are insured deposits. Deposits in an Ontario credit union are insured for each credit union member to a maximum of \$250,000 for non-registered accounts (such as savings and chequing accounts) and to the full amount of the deposit for registered accounts (such as registered retirement savings plans and tax-free savings accounts).

11 caisses populaires amalgamated into one (Caisse Desjardins Ontario).

As of June 30, 2022, the 13 largest credit unions each had member deposits in excess of \$1 billion and in aggregate held over \$57 billion (or 83%) of all credit union deposits. See **Figure 10** for a list of these 13 credit unions in Ontario by deposits. Over \$48 billion (or about 70%) of total credit union deposits are insured (see below for more details).

Deposit Insurance Reserve Fund (DIRF)

Per the Credit Union and Caisse Populaire Act, FSRA maintains the Deposit Insurance Reserve Fund (DIRF)

for the primary purpose of paying for deposit insurance claims in the event of a credit union insolvency, that is, when a credit union is unable to pay its existing debts or other financial obligations (including providing members with their deposits back on demand).

Deposits in an Ontario credit union are insured for each credit union member to a maximum of \$250,000 for non-registered accounts (such as savings and chequing accounts) and to the full amount of the deposit for registered accounts (such as registered retirement savings plans and tax-free savings accounts). The DIRF is funded by annual fees paid by credit unions based on a percentage of the insured deposits they hold; that

percentage is based on FSRA's assessment of the credit union's risk of going insolvent. The DIRF may also be used in some additional limited circumstances, such as to provide financial assistance (like liquidity support to meet deposit withdrawals) to a credit union under administration.

As of June 30, 2022, the DIRF's assets were about \$383 million, or about 0.79% of insured deposits held at Ontario credit unions.

2.4.3 Pension Plans

As the regulator of the provincially registered pension plan sector, FSRA's mandate is to promote good administration of pension plans and to protect and safeguard the benefits and rights of pension plan beneficiaries (in accordance with the *Pension Benefits Act*). All pension plans providing benefits to employees in Ontario—other than certain plans that cover only one employee, often

for owner-managed businesses, and federally registered pension plans—are required to register with FSRA.

In Ontario, as of June 30, 2022, there were about 4,630 such pension plans that collectively were managing around \$800 billion of assets and had a total of 4.3 million members (2.3 million contributing members and 2 million pensioners collecting benefits).

A pension plan may be administered by the employer who sponsors or contributes to the plan, by a Board of Trustees representing union members and the employer, or by a third party hired by the employer to administer the plan on their behalf. A pension plan administrator is responsible for managing the pension fund, which includes collecting contributions (from the plan sponsor or from both the employer and employee in contributory plans) and investing the funds.

Figure 11 provides a breakdown of pension plan members and assets by plan type in Ontario, as of June 30, 2022.

Figure 11: Pension Plans in Ontario by Number of Plans/Members and Plan Assets, as of June 30, 2022

Source of data: Financial Services Regulatory Authority of Ontario

Type of Pension Plan	Plans (#)	Plan Members (#)	Plan Assets (\$ billion)	Average Assets per Member (\$ 000)
Defined benefit				
SEPP	1,131	394,568	119	302
MEPP	64	1,006,011	44	44
JSPP	12	1,528,429	481	315
Total Defined benefit	1,207	2,929,008	644	219
Defined contribution				
SEPP	2,800	529,216	29	54
MEPP	45	58,730	3	58
JSPP	-	-	-	-
Total Defined contribution	2,845	587,946	32	55
Hybrid*				
SEPP	570	810,323	127	157
MEPP	9	25,184	1	32
JSPP	1	444	0	98
Total Hybrid	580	835,951	128	153
Total	4,632	4,352,905	804	Average of 185

Legend: JSPP – jointly sponsored pension plan; MEPP – multi-employer pension plan; SEPP – single-employer pension plan

* A hybrid pension plan contains both defined benefit and defined contribution provisions. Generally, this is because a defined benefit plan has been converted to a defined contribution structure on a go-forward basis. Members who were part of the initial defined benefit plan will: 1) continue to accrue defined benefits as if there had not been a conversion, or 2) continue to receive defined benefits for the period of time they were accrued up to the time of conversion, and receive defined contribution benefits from the point of conversion onward. New members of the plan will only receive defined contribution benefits.

As shown in **Figure 12**, 10 pension plans make up 67% of the market value of the assets in the sector.

Pension Benefits Guarantee Fund (PBGF)

The PBGF was established in 1980 to reduce the risk of plan members or beneficiaries losing pension benefits in the case of an employer insolvency. In the event an eligible plan's sponsor becomes insolvent and the plan does not have enough assets to cover its obligations, the PBGF can cover a portion of each member's earned pension to a maximum of \$1,500 per month, subject to the total assets in the PBGF fund.

The PBGF is funded by assessments paid by sponsors of defined benefit (DB) single-employer pension plans that are covered by the PBGF. Single-employer-sponsored DB pension plans whose benefits are not covered by the PBGF include some large pension plans (as listed in **Appendix 7**), such as the Public Service Pension Plan, and all individual pension plans (generally small pension plans with no more than three members set up by an owner-managed business).

PBGF-covered pension plans represent 60% of all single-employer sponsored DB pension plans, and 99.8% of all single-employer sponsored DB pension plan members.

As shown in **Figure 13**, the financial position of DB pension plans improved from 2011 to 2021. As indicated in this figure, DB pension plans improved their surplus position from \$1,706 million in 2011 (168 plans) to \$5,474 million in 2021 (410 plans), and reduced their deficit position from \$16,784 million in 2011 (1,195 plans) to \$7,114 million in 2021 (581 number of plans).

3.0 Audit Objective and Scope

The objective of our audit was to assess whether the Financial Services Regulatory Authority of Ontario (FSRA) has effective and efficient regulatory processes and systems in place for the private passenger

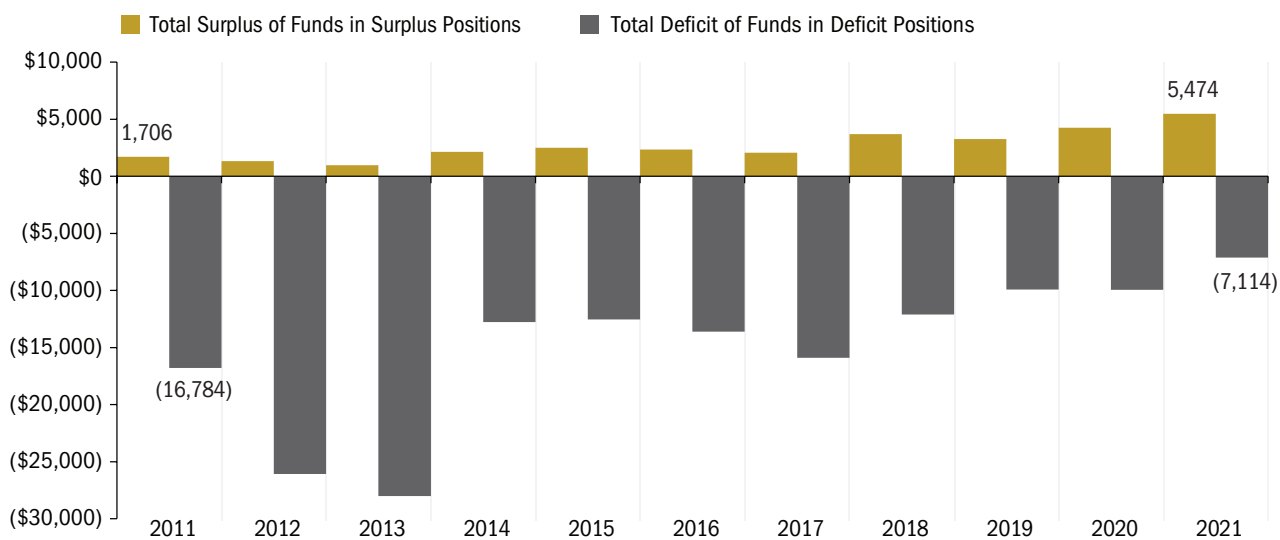
Figure 12: Top 10 Pension Plans in Ontario Based on Market Value of Assets, as of June 30, 2022

Source of data: Financial Services Regulatory Authority of Ontario

Pension Plan Name	Pension Plan Sponsor	Market Value of Assets (\$ million)
Ontario Teachers' Pension Plan	Ontario Teachers' Federation	221,241
OMERS Primary Pension Plan	OMERS Sponsors Corporation	105,400
Healthcare of Ontario Pension Plan	Board of Trustees of the Healthcare of Ontario Pension Plan	103,983
Public Service Pension Plan	Province of Ontario	31,000
Ontario Public Service Employees Union Pension Plan	OPSEU Pension Trust, Joint Trustees, Province of Ontario OPSEU	23,046
Colleges of Applied Arts and Technology Pension Plan	Colleges of Applied Arts and Technology	15,846
Ontario Power Generation Inc. Pension Plan	Ontario Power Generation Inc.	15,359
General Motors Canadian Hourly-Rate Employees Pension Plan	General Motors of Canada Company	9,989
Rules and Regulations of the LiUNA Pension Fund of Central and Eastern Canada	LiUNA Pension Fund of Central and Eastern Canada	9,046
Hydro One Pension Plan	Hydro One Inc.	8,144
Total of Top 10 Pension Plans		543,054
Total of All Other Pension Plans in Ontario		261,547
Total		804,601

Figure 13: Cumulative Surplus or Deficit for Defined Benefit Pension Plans Covered by the Pension Benefits Guarantee Fund, 2011–2021 (\$ million)

Source: Financial Services Regulatory Authority of Ontario



Note: Data is as of December 31 for each year based on the most current data submitted by a pension plan to the Financial Services Regulatory Authority of Ontario at that time. Plans generally are only required to file updated financial information, including their overall surplus or deficit position, once every three years.

automobile insurance, credit union and provincially registered pension plan sectors to:

- protect consumers and contribute to public confidence in these sectors through its regulatory and supervisory activities (licensing, registration, monitoring compliance, investigation, enforcement and education for consumers) in accordance with legislation, rules and policies; and
- measure and publicly report its effectiveness in achieving its mandate.

In planning for our work, we identified the audit criteria we would use to address our audit objective (see **Appendix 8**). These criteria were established based on a review of applicable legislation, policies and procedures, internal and external studies, and best practices. Senior management at FSRA and the Ministry of Finance (Ministry) reviewed and agreed with the suitability of our objectives and associated criteria.

We conducted our audit between December 2021 and August 2022. We obtained written representation from management at FSRA and the Ministry that, effective November 23, 2021, they had provided us with all the information they were aware of that could

significantly affect the findings or the conclusion of this report.

In performing our audit work, we conducted work on-site at FSRA's head office in Toronto, where we met with management and staff. Our audit focused on FSRA's regulatory activities in the private passenger automobile insurance, credit union and provincially registered pension plan sectors. These sectors impact the majority of Ontarians, and the revenue from these three sectors aggregated to an average of 62% of total revenue earned by FSRA over the last three years, from 2019/20–2021/22. Private passenger insurance is mandatory in the province. Our audit did not extend to commercial automobile insurance.

We noted that FSRA is shifting to a Principles-Based Regulation approach in the sectors that it regulates, which focuses on a risk-based approach to regulation (focused on the overall consumer outcome) as opposed to just assessing compliance with regulations. As the implementation of this approach is in its early stages, we could not assess the effectiveness of FSRA's envisioned approach.

We interviewed senior management and staff from FSRA and the Ministry. We also examined related data

and files (for the last three to five years, with some trend analyses going back as far as 10 years) from both FSRA and the Ministry.

In our audit work, which included file reviews, analyses, interviews and research on best practices in other jurisdictions, both in and outside Canada, we also:

- inspected and analyzed information submitted by regulated entities and inspected reports prepared by FSRA to better understand its regulatory activities;
- inspected information submitted to the Ministry by FSRA in relation to its regulatory activities of the automobile insurance, credit union and pension plan sectors;
- examined meeting minutes from FSRA's Board of Directors and advisory committees to understand current events and concerns in the sectors we audited;
- examined expert reports related to the private passenger automobile insurance, credit union and provincially registered pension plan sectors to gain an understanding of key issues within these sectors;
- interviewed key private passenger automobile insurance, credit union and provincially registered pension plan stakeholders (both in Ontario and other jurisdictions) to understand their views on the sector and FSRA's activities. These stakeholders included the FAIR Association of Victims for Accident Insurance Reform, the Insurance Bureau of Canada, the Insurance Corporation of British Columbia, the Licence Appeal Tribunal, the Registered Insurance Brokers of Ontario, and Saskatchewan Government Insurance for the automobile insurance sector; the Canadian Credit Union Association, Central 1, Alberta's Credit Union Deposit Guarantee Corporation, and the Deposit Guarantee Corporation of Manitoba for the credit union sector; and the BC Financial Services Authority, Canadian Association of Retired Persons, and the Canadian Federation of Pensioners for the pension plan sector;

- researched best practices from other jurisdictions, including other Canadian provinces, the United States and the United Kingdom; and
- reviewed FSRA's relevant internal audit reports to enhance our understanding of its operations and risks.

We conducted our work and reported on the results of our examination in accordance with the applicable Canadian Standards on Assurance Engagements—Direct Engagements issued by the Auditing and Assurance Standards Board of the Chartered Professional Accountants of Canada. This included obtaining a reasonable level of assurance.

The Office of the Auditor General of Ontario applies the Canadian Standard on Quality Control and, as a result, maintains a comprehensive quality control system that includes documented policies and procedures with respect to compliance with rules of professional conduct, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Professional Conduct of the Chartered Professional Accountants of Ontario, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

4.0 Detailed Audit Observations – Private Passenger Automobile Insurance

4.1 Ontario's Private Passenger Automobile Insurance System Is Complex and Costly

Despite several reports providing recommendations over the past decade to improve Ontario's private passenger automobile insurance framework and lower premium costs, the former Financial Services Commission of Ontario, the Financial Services Regulatory Authority of Ontario (FSRA) and the Ministry of

Finance (Ministry) have not sufficiently improved the framework to provide less costly private passenger automobile insurance to Ontarians. Contributing to this, the Ministry has only begun acting on the requests FSRA has made for additional powers to improve the automobile insurance regulatory environment.

Currently, FSRA's licensing systems lack efficiency, and its renewal process can enable insurance agents who have engaged in misconduct to be licensed. As well, FSRA has not, as part of its review of the Registered Insurance Brokers of Ontario (RIBO), taken steps to have RIBO improve its requirements for insurance brokerages to disclose pertinent information (such as any financial interest in them by insurance companies and the commissions they receive from insurance companies) to consumers who are deciding to buy automobile insurance, and its inspection is not sufficient to confirm that RIBO is effectively overseeing insurance brokers (for example, it has not regularly determined why RIBO consistently is inspecting fewer insurance brokers annually than its targets). Further, FSRA does not analyze Licence Appeal Tribunal cases related to automobile insurance claim disputes to understand how it can improve its oversight of the industry to provide better information to the public on the insurance companies that have been involved in disputes. FSRA has conducted limited analyses to determine if the variables used in calculating automobile insurance premiums are fair to all Ontarians. These issues are discussed in greater detail below.

4.1.1 Ontario Has the Highest Private Passenger Automobile Insurance Premiums in Canada

As shown in **Figure 7a**, Ontario has the highest private passenger automobile insurance premiums in Canada, which grew 14% between 2017 and 2021 from \$1,442 to an average of \$1,642 per vehicle. Our analysis of the province's private passenger automobile insurance industry data, review of practices of other jurisdictions and entities within Ontario, and review of past reports on Ontario's automobile insurance industry identified a number of changes that FSRA has not acted on that

may result in lower private passenger automobile insurance rates for Ontarians.

Over the past decade, several reports have proposed ways to make Ontario's automobile insurance industry operate more effectively and at a lower cost (see **Appendix 9**). One important report is *Fair Benefits Fairly Delivered: A Review of the Auto Insurance System in Ontario* written in 2017 by David Marshall (former President and CEO of the Workplace Safety and Insurance Board), who was appointed by the Ministry of Finance in 2016 to review the province's automobile insurance system and make recommendations to the government of the day for improvements. **Appendix 10** lists the recommendations made in Marshall's initial report.

To date, little action has been taken on the report's several proposals and recommendations. We have summarized four areas where improvements to the industry could potentially reduce automobile insurance premiums in Ontario and make the sector more efficient. The first three are discussed in detail in **Appendix 11**.

Ontario Uses a Cash Payment Model Versus a Care-Based Model for Insurance Claims Handling, Which Contributes to Higher Legal Costs

Ontario's private passenger automobile insurance sector model is a mixed tort and no-fault system, meaning that insurance companies provide coverage to insured individuals when an accident occurs, but that those injured may also sue an at-fault driver who would rely on their insurance company to cover a resulting financial settlement. Tort raises the costs for the system as a whole. This model of automobile insurance in Ontario creates an incentive for accident victims and lawyers to seek cash for potential health costs instead of treatment, as well as cash for legal and settlement fees that insurance companies pay, which are costs ultimately passed onto insurance policyholders. This process may involve lawyers who are hired to dispute payments and benefits offered by insurance companies, including through a tribunal and the courts (see **Section 4.1.5** for more details). In 2019 (the final full year of normal operations prior to the impacts of

COVID-19), FSRA estimated that contingency fees—which lawyers charge to their clients if their client’s claim is successful—accounted for an estimated \$445 million of the total bodily injury and accident benefits claims paid from proceeds given to their insured client by insurance companies. **Figure 14a** breaks down the 2019 costs of delivering private passenger automobile insurance in Ontario, of which 61% are related to claims. **Figure 14b** illustrates the breakdown of the claims cost for 2019, with contingency fees accountable for 6% of those costs. On top of this, FSRA estimated that about 30%–35% of settlements paid in personal injury disputes between insurance companies and claimants are used to pay for professional and legal fees, such as contingency fees, instead of benefitting injured parties.

Other jurisdictions within Canada (such as Alberta) have treatment protocols that provide a more structured way to treat injuries such as sprains, strains and

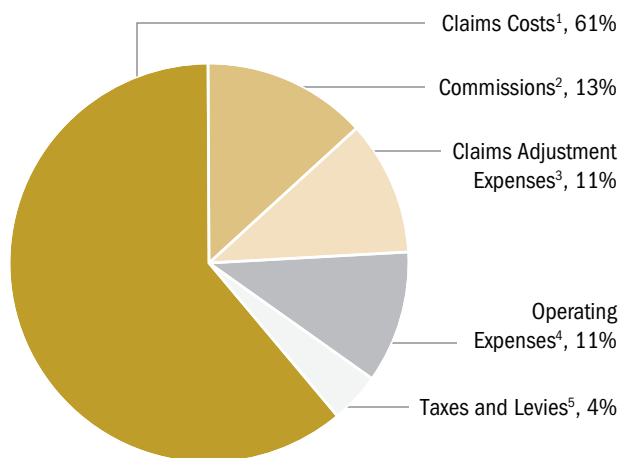
whiplash versus through the payment of cash. Ontario has a Minor Injury Guideline (MIG) in place, but it has not been reviewed since 2014. Reforming the current system in Ontario by creating a more structured approach or “programs of care” for both minor and non-minor injuries—outcome-focused treatment plans designed around the patient’s needs—could potentially reduce legal and frivolous claims, thereby decreasing overall private passenger automobile insurance premiums.

The Medical Assessment Process for Automobile Accident Benefit Claims Fosters Duplicate Medical Assessments, Contributing to More Costs

The cost of the insurance claims process can include the cost of unnecessary repeat medical assessments to determine the severity of injuries after an accident. Once an accident victim reports a claim to their insurer, the insurer will determine if coverage exists

Figure 14a: Breakdown of Costs of Delivering Private Passenger Automobile Insurance in Ontario (%), 2019

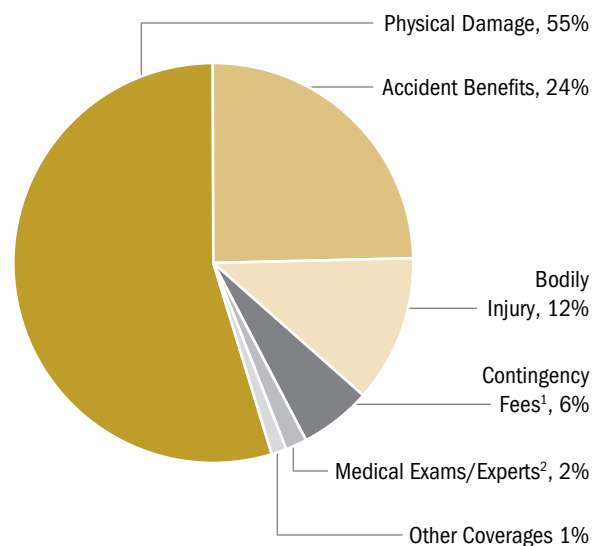
Source of data: Financial Services Regulatory Authority of Ontario



1. Claims costs include costs to insurance companies for the insurance benefits they provide, such as accident benefits, physical damage, and bodily injury.
2. Commissions are costs incurred through sales channels, most commonly insurance brokers.
3. Claims adjustment expenses include both allocated and unallocated loss adjustment expenses. Allocated loss adjustments include costs incurred by an insurance company that are attributed to the processing of a specific claim, such as expert witness or defense attorney fees. Unallocated loss adjustment expenses include costs incurred by an insurance company that cannot be attributed to the processing of a specific claim, such as the claim department’s salaries and rent.
4. Includes all other company expenses, such as office space, underwriter salaries, IT, etc.
5. Include the Ontario Premium Tax (3%) and the Ontario Health Levy (1%).

Figure 14b: Expenses Making Up Total Claims Costs in Ontario (%), 2019

Source of data: Financial Services Regulatory Authority of Ontario



1. Costs charged by lawyers to clients who are successful in claims against insurance companies. FSRA’s estimate is based on the findings in David Marshall’s 2017 report *Fair Benefits Fairly Delivered: A Review of the Auto Insurance System in Ontario*.
2. Costs charged to assess a victim’s medical needs after an automobile accident. FSRA’s estimate is based on the findings in David Marshall’s 2017 report *Fair Benefits Fairly Delivered: A Review of the Auto Insurance System in Ontario*.

and if it does, explain the victim's entitlement. The claimant can then have a medical assessment completed by a medical practitioner and a treatment plan recommended to them, which is then submitted to the insurer for approval (the insurer may reject all or part of the plan, except for those injuries covered under the MIG where no approval is needed and practitioners can submit and invoice for services provided in accordance with the MIG) to fund their treatment. The current system can result in multiple assessments being conducted to determine the severity of an accident victim's injuries. This can delay when an accident victim receives the care they require. In his 2017 report to the Ministry, Marshall also discussed the high costs of medical assessments to the system in Ontario.

Unlike Other Provinces, Ontario Does Not Accreditate Automobile Repair Shops Paid Through Private Passenger Automobile Insurance Claims, Which Increases the Risk of Poor Repair Work and Fraud

Automobile repairs add substantial costs to accident claims. For example, based on information from the Insurance Bureau of Canada, between 2015 and 2019, bodily injury and accident benefit claims costs as a percentage of total claims costs have decreased from 62% to 47%, whereas collision-related car repair costs have increased from 29% of total costs in 2015 to 39% in 2019. However, unlike some other provinces (including British Columbia and Saskatchewan), Ontario does not have a mandatory licensing or certification regime for automobile repair businesses to protect consumers against poor repair work and fraud. Articles we reviewed stated that examples of fraud that can occur with automobile repair shops include repair shops overstating bills for parts that were not required and/or repairs that were never completed.

FSRA Does Not Have Information-Sharing Protocols in Place with the Ministry of Transportation to Effectively Regulate Tow Trucks

During our audit, FSRA and the Automotive Industries Association (AIA) raised concerns with us about the potential for tow truck operators to be a source of

fraudulent activity and that towing fees contribute to the cost of private passenger automobile insurance premiums in Ontario, which are higher than those in other provinces (as identified in **Figure 7a**). Marshall also identified this concern in his independent 2022 C.D. Howe Institute report. Tow truck operators are a critical part of the automobile insurance claims process, especially in cases of major accidents, because they are usually among the first people to arrive at an accident site where victims may be in a distraught mental state. While the cost of the towing of a vehicle may make up a smaller portion of overall automobile insurance claims, our discussions with the Ministry of Transportation (MTO) and AIA noted that once a tow truck operator has a car hooked, they can influence the client on what other businesses they should engage—such as automobile repair shops, storage facilities, clinics—which all add to the cost of an insurance claim.

We met with MTO to inquire about the regulation of tow truck operators in the province. MTO has recently begun the regulation and enforcement of tow truck operators. The *Towing and Storage Safety and Enforcement Act* (Act) received Royal Assent in June 2021 and outlines a new regulatory environment for tow truck operators that aims to improve customer protections and reduce crime and fraud throughout the towing cycle. The Act has not yet been proclaimed but is expected to be fully in force by July 2023. In its 2022 analysis of the regulatory impact of the Act, MTO identified that nefarious actions involving insurance fraud (such as inflated invoices) have been ongoing in the towing and storage sectors, leading to rising costs for insurers and consumers. FSRA, as the regulator of the automobile insurance industry in Ontario, has a stake in identifying these bad actors in the insurance ecosystem and taking necessary action. FSRA has engaged with MTO to create information-sharing agreements but has not yet created such agreements with MTO to collect information regarding tow trucks and identify bad actors in the sector. FSRA stated the current data in the MTO collision database is of limited value to identify these actors. As such, FSRA should reassess available data as the Act becomes law.

RECOMMENDATION 1

To lead automobile insurance reforms in the province and reduce the cost of private passenger automobile insurance for Ontarians, we recommend that the Financial Services Regulatory Authority of Ontario, and where necessary, the Ministry of Finance take the lead to:

- develop and implement up-to-date programs of care for injuries such as sprains, strains and whiplash to standardize the treatment provided to clients after an accident and the costs of such treatment, beyond just those of minor injuries;
- assess the cost of implementing a centralized medical assessment process, and if beneficial and cost-effective, implement that process while requiring both insurers and consumers to use the process to reduce the amount of medical assessments and disputes related to those assessments;
- work with relevant industry associations and ministries to develop an accreditation regime for automobile repair shops in Ontario, and require shop accreditation;
- implement an information-sharing agreement with the Ministry of Transportation (MTO) to collect data on how tow truck operators are involved in the automobile insurance system and the costs associated with that; and
- undertake enforcement action, when necessary, in collaboration with MTO, against automobile repair shops and tow truck operators to reduce instances of fraudulent, unreasonable services or poor repairs being performed that result from an automobile accident.

RESPONSE FROM THE FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

FSRA thanks the Auditor General for the recommendation and agrees to work together with the Ministry of Finance on automobile insurance reforms to reduce the cost of automobile insurance for Ontarians. FSRA will continue to work with

the Ministry of Finance to further the interests of Ontario's drivers.

Established programs of care based on medical evidence and reducing the cost and treatment delays associated with medical assessments continue to be of interest to FSRA. This also aligns with one of six major themes from the 2021 Final Report of FSRA's Residents Reference Panel on Auto Insurance which cited the need for access to timely, recovery-focused care. Implementing such programs or an accreditation regime for automobile repair services is, however, beyond FSRA's authority, and would require legislative changes.

Having struck a data-sharing agreement between FSRA and the Ministry of Transportation for the first time in Ontario, FSRA welcomes the Auditor General's recommendation to grow the scope of that relationship to include more data as it becomes available so that it can be used in reducing fraud and identifying other sources of consumer harm.

FSRA agrees with the Auditor General that there are many participants in the automobile insurance ecosystem including some collision repair shops and tow operators that provide poor service and may engage in fraud. While FSRA has recently implemented a rule on Unfair and Deceptive Acts and Practices in the insurance sector which improves FSRA's ability to sanction service providers that commit a fraud on insurers/insured persons, we note that in **Recommendation 3**, the Auditor General recognizes the limits of FSRA's current authority to oversee unlicensed entities. FSRA will continue to take enforcement action against bad actors in the automobile insurance system within the bounds of its authority and will propose amendments to its authority when necessary.

MINISTRY RESPONSE

The Ministry acknowledges the importance of continued efforts to reduce the cost of automobile insurance. The *2022 Ontario Budget* stated the government's plan to continue reducing these costs by

creating more choice for consumers, cracking down on fraud, and enhancing fairness in rates. The Ministry will continue working with FSRA and partner ministries to deliver on these objectives, including consideration of expanded programs of care for automobile accident injuries, possible changes to the medical assessment process and potential processes to better oversee the operations of automobile repair shops.

RECOMMENDATION 2

To make headway on previous reports' recommendations that will improve the private passenger automobile insurance industry in Ontario, we recommend that the Financial Services Regulatory Authority of Ontario, and where necessary, the Ministry of Finance:

- perform a comprehensive review of the automobile insurance reform reports in Ontario (such as those identified in **Appendix 9**) and the recommendations made in those reports;
- identify and prioritize the recommendations and reforms that can most reduce costs and premiums in the Ontario automobile insurance industry, strengthen industry oversight and increase consumer protection; and
- develop and execute on a plan to implement those recommendations.

RESPONSE FROM THE FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

FSRA welcomes the Auditor General's recommendation to advance the work of previous reports aimed at improving automobile insurance in Ontario where that work continues to be relevant. FSRA has also reviewed reports from other jurisdictions. FSRA will be pleased to work with the Ministry to understand and, where deemed prudent, to implement past report recommendations. As noted in our 2023–2024 Draft Statement of Priorities, FSRA will continue to support legislative changes to reform automobile insurance

regulation and provide expert advice on key trends and opportunities to improve outcomes for consumers.

MINISTRY RESPONSE

The Ministry acknowledges there have been a number of valuable reports on automobile insurance in the past and will continue to consider them where relevant as it works with FSRA to implement The Blueprint for Putting Drivers First Plan, first announced in the 2019 budget and the 2022 budget commitments to continue improving automobile insurance in Ontario.

4.1.2 Ministry Has Begun Acting on FSRA's Request for Additional Powers to Improve the Automobile Insurance Regulatory Environment

The Ministry of Finance (Ministry) has begun moving forward on some of FSRA's requests to receive additional powers to more effectively regulate the private passenger automobile insurance sector in Ontario. FSRA's requests would allow for more consumer protection and potentially lower insurance premiums, such as identifying and taking enforcement action against automobile repairs shops that charge for repairs not completed.

In 2019, FSRA submitted three such proposed amendments to the Ministry. We reviewed the details as to why each proposal was made and the benefit it could potentially bring (see **Figure 15**). At the time of our audit, the Ministry had not yet moved forward with these three proposals. FSRA advised us that the Ministry raised general concerns about its requests for more powers and authority.

When asked why these proposals have not been implemented, the Ministry explained to us that when FSRA proposed these amendments in 2019, it had not yet implemented its first rule, the Unfair or Deceptive Act or Practices (UDAP) rule, and the Ministry wanted to assess its success before proceeding with additional rule proposals. The UDAP rule, which was approved in February 2022 and came into effect on April 1, 2022, essentially allows FSRA to supervise conduct in the

Figure 15: FSRA's Proposed Amendments for the Regulation of the Automobile Insurance Sector, 2019

Source of data: Financial Services Regulatory Authority of Ontario

Proposed Amendment	FSRA Rationale
FSRA should be given modern oversight tools to investigate and sanction bad actors.	This would give FSRA additional authority to take stronger actions, such as higher penalties or disgorgement, against bad actors such as those engaging in fraudulent activity.
FSRA should be given full market conduct rule-making authority that would enable it to set industry-leading legal standards, such as principles for fair treatment of consumers.	The <i>Insurance Act</i> is unable to adopt a regulation that provides a statutory code of conduct.* This means that everything one would normally expect to be in a code of conduct must be positioned as a negative—for example, rather than having a requirement that “insurers treat policyholders fairly,” it would read, for instance, “it is an unfair and deceptive act or practice to fail to treat a consumer fairly.” FSRA could regulate the sector more effectively if an insurer had to demonstrate compliance with a positive obligation (as it could then audit that the insurer has complied) rather than having to find and react to instances where a consumer has not been treated fairly.
FSRA should have full authority to make rules governing automobile insurance products so that it would have the continuous, long-term ability to make timely changes to products as needed.	While automobile insurance policy wording is approved by FSRA, key components are set through legislation (i.e., the SABS). FSRA has extensive automobile insurance expertise to support a comprehensive review of the insurance system and its products, and has proven it can run a successful rule-making process under the <i>Insurance Act</i> (e.g., establishing the UDAP rule) to modernize parts of Ontario insurance law. Full automobile insurance product rule-making authority would be a key enabler for FSRA to deliver meaningful automobile insurance reform.

Legend: SABS - Statutory Accident Benefits Schedule; UDAP - Unfair or Deceptive Act or Practices

* Other FSRA sector acts (e.g., *Credit Unions and Caisses Populaires Act, 2020*) have the ability to adopt this regulation.

automobile insurance industry by defining which outcomes are unfair and harmful. This has given FSRA a greater ability to define proper industry practices by setting what sector participants are no longer allowed to do if FSRA has deemed them unfair or harmful to consumers, such as prohibiting them from giving incentives or gifts to insured individuals to make a decision related to insurance products.

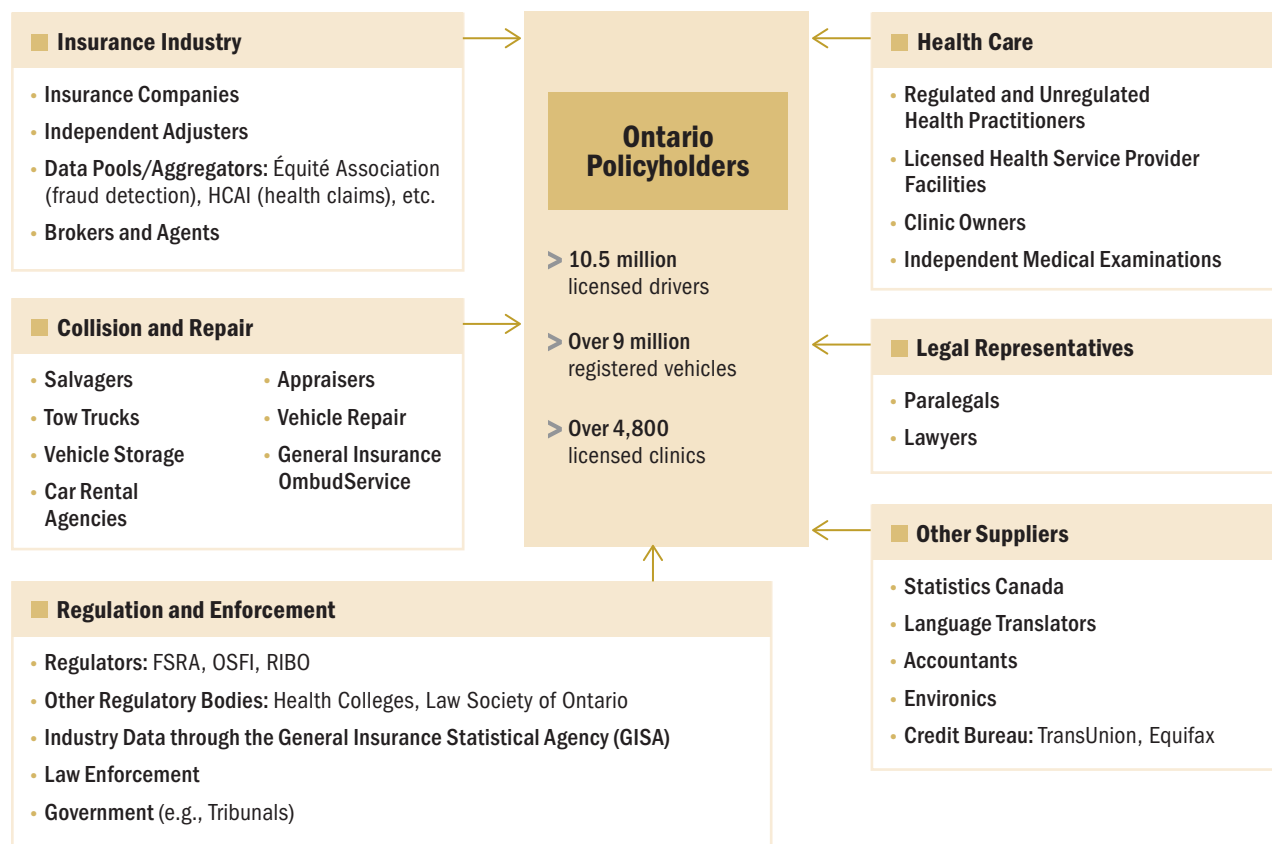
The automobile insurance ecosystem is diverse and engages participants from many different sectors, sometimes governed by their own statutes and regulators. FSRA's ability to effectively and comprehensively regulate more key aspects (such as the tow truck and automobile repair industries) of the automobile insurance industry is limited since its current legislated mandate and statutory authority is not exhaustive. FSRA is only responsible for licensing and overseeing insurance agents, adjusters and provincially licensed insurers. However, numerous other participants within the insurance ecosystem—such as automobile repair

shops, tow truck operators, legal professionals and regulated and unregulated health-care service providers—contribute to automobile insurance claims costs (see **Figure 16**). Thus, to be able to regulate the actions of a greater number of industry participants, FSRA may need its authority to be expanded under the *Insurance Act* to cover a greater number of these sector participants as it relates to claims costs and the treatment of those in vehicle accidents.

In October 2020, FSRA made additional proposals (see **Figure 17**) to the Ministry to strengthen its investigation and enforcement authority in relation to fraud, so that it can take possible enforcement action when needed against persons who engage in fraud and abuse in the broader insurance industry. As of July 2022, FSRA's proposal to modernize its authority under the *Insurance Act* has been partially acted on by the Ministry. In the 2022 Spring Budget, the government announced its intent to combat fraud and abuse in the automobile insurance sector, which includes

Figure 16: Entities Comprising the Automobile Insurance Sector in Ontario

Source of data: Financial Services Regulatory Authority of Ontario



Legend: FSRA - Financial Services Regulatory Authority of Ontario; HCAI - Health Claims for Auto Insurance; OSFI - Office of the Superintendent of Financial Institutions; RIBO - Registered Insurance Brokers of Ontario

providing additional legislative powers to FSRA, particularly the ability to have fraud information provided to it by automobile insurance companies. However, the Ministry has not acted on the other requests (identified in **Figures 15** and **17**), such as granting FSRA greater authority to take enforcement actions or giving FSRA greater rule-making authority over the automobile insurance sector.

The government of Ontario has put forward proposals to improve the regulation of the automobile insurance sector. Its 2019 The Blueprint for Putting Drivers First Plan included 21 initiatives to, for example, lower costs, reform the medical assessments process and make the automobile insurance market more competitive. Some of the items within this plan align with recommendations Marshall made in his 2017 report to the government, such as implementing a

“Care, Not Cash” approach. However, partly due to the COVID-19 pandemic, no action has been taken on multiple initiatives (see **Appendix 12** for the government of Ontario’s progress against its 2019 The Blueprint for Putting Drivers First Plan). In its 2022 Budget, the Province reaffirmed its commitment to this blueprint and to “continue fixing automobile insurance”—including proposing amendments to the *Insurance Act* that would require insurers to provide fraud information and data to FSRA on an ongoing basis. As noted in **Section 4.1.1**, while the extent of fraud has historically been difficult to measure, it has been identified as a contributor to the high cost of automobile insurance premiums in Ontario.

Figure 17: FSRA's Proposed Amendments for the Regulation of the Automobile Insurance Sector, October 2020

Prepared by the Office of the Auditor General of Ontario

Proposed Amendment to the Ministry of Finance	Rationale
<p>FSRA requested further authority to take enforcement actions, such as levying financial penalties and sanctions, against non-licensed entities in the industry as required.</p>	<ul style="list-style-type: none"> • FSRA has the ability to sanction licensed agents who engage in fraudulent or abusive conduct and/or revoke their licences. However, the Unfair or Deceptive Act or Practices (UDAP) rule and the overall legislative scheme have not been expanded to include misconduct by sector participants whom FSRA does not license (e.g., collision repair shops, storage facilities, tow truck operators). As well, lawyers are entitled to certain exemptions. • This amendment would allow FSRA to take enforcement action, such as levying financial penalties and sanctions against these entities as required.
<p>FSRA requested to implement a fraud-reporting service whereby automobile insurance companies would report identified fraudulent activity and metrics related to fraud management. FSRA also sought approval to require insurers to develop fraud-management plans that it would assess for adequacy.</p>	<ul style="list-style-type: none"> • This would allow FSRA to more accurately identify, investigate and quantify fraud in the entire sector. With the <i>2022 Ontario Budget</i> committing to consultation on fraud management plans, FSRA can take the next step of exploring ways to implement this initiative.
<p>FSRA requested to obtain Special Constable Status for its investigators, who are already Provincial Offence Officers, so they can lay charges under fraud-related provisions of the Criminal Code of Canada.</p>	<ul style="list-style-type: none"> • This would allow FSRA, subject to pre-consultation with the Crown Attorney, to take direct action against sector participants it does not license and FSRA licensees who engage in fraudulent conduct. Criminal Code tools such as production orders and search warrants would then also be available. • These powers are already in place for other regulators, such as the Ontario Securities Commission, but the Ministry of the Solicitor General has not yet decided whether to extend these powers to FSRA's investigators, despite requests that this be done.

RECOMMENDATION 3

To improve the tools the Financial Services Regulatory Authority of Ontario (FSRA) uses to oversee Ontario's private passenger automobile insurance sector, we recommend that the Ministry of Finance (Ministry):

- review whether FSRA can better oversee more entities in the insurance system (including automobile repair shops and tow truck operators);
- work with FSRA to develop a co-ordinated assessment process for both entities of any legislative or rule-related requests that FSRA makes, including regular updates on the status and timing of a decision; and
- prioritize the further review of FSRA's already proposed fraud reduction initiatives and recommendations, and if warranted, approve them.

MINISTRY RESPONSE

The Ministry accepts the Auditor General's recommendation and will continue working collaboratively with FSRA to ensure the agency has the appropriate authority to fulfill its mandate and continues to receive updates on the status and timing of any proposals it makes.

The Ministry recently expanded FSRA's authority by increasing the applicability of the Unfair or Deceptive Acts or Practices (UDAP) rule as well as giving FSRA legislative powers to collect fraud information from the sector. The Ministry will consider further expanding FSRA's authority where deemed necessary.

The Ministry and FSRA collaborate on a regular basis to improve consumer protection for automobile insurance. The working relationship

between the Ministry and FSRA is established and guided by the Agencies and Appointments Directive.

4.1.3 Oversight and Disclosure Requirements of Automobile Insurance Brokerages Are Inadequate

Our audit found that FSRA has not focused on ensuring, through its review of the Registered Insurance Brokers of Ontario (RIBO), which is the self-regulatory body for insurance brokerages and insurance brokers, that insurance brokerages and brokers are effectively overseen and that they provide important disclosures to consumers. For example:

- FSRA's oversight is limited**—RIBO oversees both insurance brokerages and insurance brokers, who can provide consumers with insurance from a number of different insurance companies. Insurance agents work with only one insurance company. FSRA reviews RIBO's operations annually to ensure that automobile insurance brokers and brokerages are being effectively overseen by RIBO, in the best interests of automobile insurance consumers. However, FSRA's most recent review focused on RIBO's plans and policies as opposed to RIBO's oversight of the insurance broker industry as a whole. Neither FSRA nor RIBO have performed a detailed analysis of the insurance broker industry overall to determine if there is systemic bias in the way brokers operate or refer clients, based on ownership and commission structures between them and insurance companies (see below).
- Consumer disclosure of brokerage ownership or insurer/brokerage insurance sales arrangements is not always occurring**—An insurance company can own all or most of an insurance brokerage, potentially resulting in that brokerage suggesting more of its parent company's products to consumers. However, there is no requirement for a broker to explicitly communicate this ownership relationship to

consumers prior to them providing a quote and product recommendation. We noted that most brokerages disclose this on their website. Particularly, as a result of the COVID-19 pandemic, obtaining a private passenger automobile quote online became more attractive. In a sample of 50 websites of insurance brokerages in Ontario we reviewed, 43 (86%) of them disclosed the degree of financial interest (including ownership) that insurance companies have in them. However, we noted that in a sample of 10 phone calls we made to insurance brokerages to request a quote for private passenger automobile insurance, only one disclosed any financial interest in it from insurance companies prior to being asked. Knowing the commission brokerages receive from insurance companies they sell insurance for can help consumers decide where to purchase their insurance from. However, in the sample of 50 websites we reviewed, only 14 (or 28%) of brokerages disclosed this type of information to consumers. FSRA can do more to encourage RIBO to require that important information (such as if an insurance company has any ownership of an insurance brokerage) is disclosed by insurance brokers to all private passenger automobile insurance consumers, and that this and other information (such as the commissions insurance brokerages receive from each insurance company they work with) are confirmed as being disclosed to consumers based on FSRA's own inspections or by ensuring that RIBO's inspections verify that this is occurring. In total, only 14 (or 28%) of the 50 insurance brokerage websites we reviewed disclosed both financial interest in it and commissions received by insurance companies. See **Appendix 13** for more details.

RECOMMENDATION 4

To improve the oversight of insurance brokers and brokerages, and to offer consumers better protection and information about these entities, we

recommend that the Financial Services Regulatory Authority of Ontario (FSRA):

- collaborate with the Ministry of Finance and the Registered Insurance Brokers of Ontario (RIBO) to improve and refine requirements for brokerages, brokers and insurance companies to disclose information (such as the degree of financial interest an insurance company has in a brokerage, including ownership, and the commission structure of each insurance company a brokerage works with) to consumers prior to providing them with all available quotes including on their website and over the phone;
- collect information from insurance brokerages (such as on the commission structure), or require RIBO to systematically collect and provide to FSRA such information as part of its annual inspection of RIBO, and prioritize conducting inspections of brokerages identified as higher-risk (such as those brokerages who receive higher commissions than usual and/or brokerages who insurance companies have a financial interest in and sell insurance for); and
- incorporate an assessment of RIBO's proposed actions, or recommend actions to improve RIBO's compliance with its own insurance broker and brokerage inspection targets, as part of its annual inspection of RIBO.

RESPONSE FROM THE FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

FSRA thanks the Auditor General for this recommendation.

While insurance broker conduct is regulated by the Registered Insurance Brokers of Ontario (RIBO) and RIBO is governed by the *Registered Insurance Brokers Act* (RIBO Act), FSRA reports to the Minister of Finance on RIBO. FSRA will continue to prioritize the importance of disclosure and proactive supervision in its RIBO examinations. The 2021 examination of RIBO conducted by FSRA covered RIBO's shift to a risk-based approach that targets broker compliance, which will include

improved data collection. FSRA will continue to monitor and assess RIBO's oversight, including the execution of RIBO's strategic plan.

Requiring additional disclosures on, or supervisory actions related to, insurer ownership of brokerages goes beyond FSRA's authority, but the regulator is able to collect information from and to review how RIBO is overseeing the insurance brokerage industry. FSRA will review how RIBO is prioritizing inspections of higher risk brokerages.

FSRA will also review how RIBO is overseeing compliance with disclosure requirements for brokerages, and if actual disclosures to consumers as well as supervisory actions (such as broker and brokerage inspections) taken by RIBO are all sufficient.

The results of the reviews above will be included in our annual examination of RIBO, which is performed per the requirements in the RIBO Act.

4.1.4 Limited Oversight of Health-Care Service Providers Who Treat Automobile Accident Victims

Some health-care service providers (HSPs) offer medical treatment, such as physiotherapy and chiropractic services, to individuals involved in automobile accidents. As of June 30, 2022, over 4,800 HSPs were licensed with FSRA and, as such, must adhere to certain business practices such as providing annual information about their operations to FSRA.

However, our audit found that many HSPs are not licensed with FSRA because it is not a requirement to do so. The benefit of holding a licence is that HSPs are able to receive payment directly from insurers for medical services provided to automobile accident victims through the Health Claims for Auto Insurance (HCAI) system, an Ontario-wide accident benefit billing system. A licence requires HSPs to pay a fee (\$337 at the time of licensing, and then an annual fee based on the size of and number of Statutory Accident Benefits Schedule claimants at the HSP) and submit to FSRA annual information, for example, on billing and business practices. As of June 30, 2022, there were

over 1,480 medical providers who provided medical treatment to individuals involved in automobile accidents that were unlicensed to bill insurance companies directly. Services provided by these providers represent 1% of all HCAI invoices.

An individual seeking treatment at an unlicensed clinic will have to pay out of pocket at the clinic, and then seek reimbursement from their insurance company. Unlicensed HSPs also do not need to submit any information to FSRA. The regulator has the authority to conduct further review of unlicensed HSPs, but to date it has not done so as its ability to do such reviews is limited to when it has reasonable belief that an HSP has been conducting a licensed activity without a licence, which to date it has not had.

FSRA Does Not Conduct Follow-Up Work on Health-Care Service Providers to Confirm They Have Addressed Recommendations from Its Inspections

In 2014, FSRA's predecessor, FSCO, was granted authority over HSPs who treat automobile accident victims whose claims are submitted to an automobile insurance company for direct payment. FSCO, in its 2016/17 inspections of HSPs, identified that a lack of signing insurance forms by HSPs and/or clients was noted in 36% of inspections, and stated that this creates an opportunity for an HSP to facilitate fraud, directly or indirectly. The impact of the COVID-19 pandemic required FSRA to move to virtual inspections of such providers. In 2021/22, FSRA conducted virtual inspections of 326 HSPs, which focused on previously identified risks. However, these inspections were limited to questionnaires and email correspondence, which relied entirely on self-attestation by HSPs. It is important to note that FSRA did not have much choice in terms of conducting virtual versus on-site inspections; however, with COVID-19 restrictions eased, the lack of on-site inspections is a risk identified by FSRA for the HSP sector. FSRA is currently exploring options for a return to on-site inspections.

As part of our audit work, we reviewed 20 virtual inspections of HSPs conducted by FSRA since its inception in 2019. We noted that five of these inspections found instances of non-compliance by HSPs, including

an outdated roster of clinicians who bill for medical services, and insufficient policies and procedures. In these instances, FSRA issued a warning letter to each HSP explaining the issues that required action to comply with the law. FSRA also has the ability to provide education, issue warnings, or levy administrative monetary penalties, depending on the severity of the non-compliance. Additionally, FSRA may also require HSPs to surrender their licences, or may suspend, revoke or place conditions on their licences.

However, we noted that FSRA does not require HSPs to attest to or demonstrate that all cases of non-compliance have been rectified after an inspection. Moreover, FSRA does not currently have a regime in place where it follows up on all HSP licensee reviews where non-compliances were identified. Instead, FSRA uses a risk-based approach to select licensees for review. This approach incorporates prior findings, if any, as well as other factors such as complaint history. Given the past history of non-compliances found by FSCO, we believe that further work is needed to ensure HSP non-compliances are fully addressed.

RECOMMENDATION 5

To improve regulatory oversight of health-care service providers (HSPs) who provide medical treatment to individuals involved in private passenger automobile accidents, we recommend that the Financial Services Regulatory Authority of Ontario (FSRA):

- determine under what conditions should further review of an unlicensed HSP occur;
- return to on-site inspections of HSPs as soon as operationally possible; and
- require HSPs to provide evidence (such as through attestation) that they have corrected all issues identified during an inspection, and conduct follow-up examinations or desk reviews to confirm this on a risk basis.

RESPONSE FROM THE FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

FSRA appreciates and accepts the recommendation of the Auditor General and will perform an analysis to identify under what conditions an unlicensed HSP should be reviewed and inform the Ministry of the results.

FSRA has had notable success in removing HSPs from the Health Claims for Auto Insurance system (HCAI) without the cost and expense of on-site examinations but, where appropriate, FSRA plans to resume HCAI compliance examinations in 2023 on a trial basis, subject to applicable government directives and public health recommendations. Our on-site examinations will focus on higher risk HSPs, including those with prior deficiencies, to verify compliance with FSRA's billing-related regulatory requirements. We will compare the costs/benefits of desk reviews, on-site reviews and data analytic reviews as we develop our HSP supervisory model.

FSRA accepts the recommendation to require HSPs to provide evidence that they have corrected all issues identified during an inspection, such as through attestation. We will perform an analysis and engage with stakeholders to determine how best to address this recommendation, including verification that HSPs corrected the issues raised during inspections on a risk basis.

4.1.5 Accident Benefit Appeals Are Not Reviewed to Improve Oversight of Insurers and Provide Consumers with Information

The Licence Appeal Tribunal (LAT) conducts hearings in multiple sectors, including hearings on disputes over private passenger automobile insurance accident benefits claims. FSRA receives data on automobile insurance disputes that are processed through the LAT as part of an information-sharing agreement with Tribunals Ontario. The purpose of this agreement is to enable FSRA to carry out its mandate to monitor and evaluate developments and trends in the regulated sectors.

FSRA Could Benefit from the Review of Information from the LAT to Determine How It Can More Effectively Regulate the Sector

As part of our audit, we reviewed the LAT data that is shared with FSRA. This data includes very high-level statistics such as the number of dispute applications, the categories each falls into (e.g., medical benefits), and how each party was represented (e.g., by a lawyer). We found that although FSRA receives this information from the LAT quarterly, it does little with it to better understand the types of cases that are appearing before the LAT, and if regulatory changes or other actions would reduce the number of LAT hearings on automobile insurance matters.

For instance, in the fourth quarter of the 2021/22 fiscal year, 2,072 (or over 13%) of the disputes received by the LAT's automobile insurance appeal unit were associated with medical assessment costs. Based on the data we reviewed at FSRA, we noted that from 2015–2021, assessment billing approval ratings varied by insurance company. One insurer had abnormal results in 2015 and 2016 with an approval ratio for insured-initiated medical inspections of 82% and 86%, respectively. All other approval ratios in other years for all insurers were greater than or equal to 98%. While FSRA does review approval/denial rates at both the industry and individual insurer levels, it does not currently follow up with insurance companies that have a lower or higher approval rate of submitted medical expenses to understand why their results deviate from the rest of the industry. FSRA explained that it started obtaining this data in November 2020 for the first time and is regularly collecting and working with the data to identify emerging trends.

FSRA Does Not Obtain Details of Automobile Insurance Companies That Frequent the LAT to Better Monitor the Industry

FSRA also has an opportunity to receive more data from the LAT to better oversee the insurance companies it regulates. For instance, FSRA does not receive the names of the companies that each claim involves, specific details of cases, or the time period a dispute was within the Tribunal. As such, FSRA is unaware of

Figure 18: Appeals at the Licence Appeal Tribunal, 2018/19, and Market Share of the Automobile Insurance Industry, 2021

Source of data: Financial Services Regulatory Authority of Ontario; Licence Appeal Tribunal

Company/ Insurance Group	Written Premium (\$ million)	Appeals within the LAT	% of Industry by Written Premiums	% of Appeals within the LAT
Intact	2,581	1,483	19.74	10.94
Desjardins	2,052	9	15.69	0.07
Aviva	1,576	2,682	12.05	19.79
TD	1,363	394	10.42	2.91
Allstate	1,120	987	8.56	7.28
Co-operators	1,018	432	7.78	3.19
Economical/Definity	932	404	7.13	2.98
CAA	574	136	4.39	1.00
Travelers	395	466	3.02	3.44
Wawanesa	394	598	3.01	4.41
Gore Mutual	214	144	1.64	1.06
Northbridge	197	52	1.51	0.38
All others	661	5,768	5.05	42.55
Total	13,077	13,555	100	100

- Indicates instances where companies had a higher percentage of appeals within the Licence Appeal Tribunal than their share of written premiums in the industry.

which insurers were most involved with disputes and the common reasons those companies had specific claims brought before the LAT.

For example, we found that in 2018/19, the LAT received over 13,500 applications involving over 130 insurance companies. We compared the total number of appeals by each of the largest 12 automobile insurers in Ontario at the LAT, against the market share of each of these companies. We found that a major insurance company, Aviva, had a disproportionately large number of applications and appeals at the Tribunal. As shown in **Figure 18**, this insurer held about 12% of the total market share of the industry in Ontario in 2020, but was involved with over 19% of the appeals at the Tribunal in the 2018/19 fiscal year. This does not necessarily mean that Aviva is over-utilizing the LAT or engaging in inappropriate behaviour with its customers, or that other automobile insurance companies are appropriately using the LAT. However, without further discussion with or inspection of automobile insurance companies or further analysis of cases heard before the LAT, this is still unclear.

While FSRA is not responsible for the operations of the LAT, the insurance companies it licenses and regulates will always be one of the parties involved in disputes that arise over issues such as denied claims or treatment plans processed by the LAT. FSRA has not conducted inspections of specific insurance companies to understand why so many claims are brought forward against them. If it did, FSRA could use such assessments to engage the insurers in order to identify necessary changes to its own rules or industry regulations to decrease the need for LAT hearings in the future. However, without performing sufficient analysis of this information, FSRA may be losing out on the opportunity to more proactively monitor the industry.

For example, our analysis of LAT appeals between Q3 2019/20 and Q4 2021/22 noted that one of the most frequent issues raised in cases at the LAT was related to the costs of medical assessments, which was raised in about 13% of claims. FSRA has an opportunity to analyze this data and provide details of these cases to the Ministry and the public to better inform their understanding of disputes between automobile

insurers and claimants. FSRA could also use the findings of such an analysis to engage with automobile insurance companies to ensure their practices reduce the likelihood that LAT cases are needed, or to help inform regulatory changes that FSRA (and the Ministry) can make to reduce such cases at the LAT for the benefit of the industry as a whole.

As identified in **Section 4.1.1**, this is of concern as contingency fees (paid to lawyers by individuals to represent their cases at the LAT) surrounding automobile insurance claims result in several hundred million dollars each year—costs that are ultimately recovered by insurance companies through higher consumer automobile insurance premiums.

Important Details in LAT Proceedings with Insurers Are Not Made Public

In addition, our audit found that little about automobile insurance claims heard by the LAT is publicly reported (by either the LAT or FSRA). Specifically, the data disclosed by the LAT to FSRA and the public includes the total number of closed files, categorized by how they were closed (e.g., settlement, LAT decision). The LAT releases decisions on its cases through the Canadian Legal Information Institute (CanLII), but the information is not easy for the public to obtain or understand as the website only offers transcripts of court cases, and not summary data of companies or disputes in question.

Other important items could be made public, such as details of the common categories or types of disputes heard at the LAT and which insurance companies these commonly occur with, to increase transparency to members of the public and help them make more informed insurance purchasing decisions.

RECOMMENDATION 6

To reduce the number of claims brought forward to the Licence Appeal Tribunal (LAT) and to provide the public with more information about such cases, we recommend that the Financial Services Regulatory Authority of Ontario:

- expand its information-sharing agreement with the LAT to request information about automobile accident disputes, including which companies were involved and how long cases took to resolve;
- expand its quarterly analysis of data received from the LAT to determine which companies may be over-appearing at the Tribunal (such as relative to their market size) and/or which types of claims are most frequent;
- follow up, by way of discussion, or if necessary inspection, on the market conduct of insurance companies that have a disproportionately high number of LAT disputes relative to their market size, or a high volume of specific types of disputes, and identify necessary action items for the companies to take to reduce the occurrence of such cases going forward; and
- study the reasons for the most frequent types of disputes.

RESPONSE FROM THE FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

FSRA thanks the Auditor General for its recommendation to reduce the number of claims brought forward to the Licence Appeal Tribunal (LAT) and to provide the public with more information.

Where FSRA believes that interpretation of the information on LAT outcomes is required to improve the regulation of the private passenger automobile insurance sector, we will collect this information. However, FSRA has no jurisdiction over the LAT or reliable information on its processes and, leaving aside extenuating circumstances such as insurer misconduct, contractual disputes between the insurer/insured are outside of FSRA's jurisdiction. FSRA has, however, heard the view expressed that the number of disputes brought to the LAT is too high.

FSRA has advised the Auditor General that the current system incentivizes prolonged disputes and

litigation. This is driven by parties on both sides of automobile insurance disputes and not only by insurers. It is FSRA's view that the most productive way to reduce LAT disputes is by reducing conflict in the automobile insurance system among financially interested parties at its root cause rather than addressing a symptom. This is consistent with FSRA's approach to regulation, in general, which is focused on desired outcomes.

FSRA will bring forward this recommendation to its Product Technical Advisory Committee for Auto Insurance Products (P-TAC). The P-TAC is focused on improving consumer outcomes and includes insurers, health-care service providers, and lawyers—all participants in the LAT. The Committee's Terms of Reference permit the P-TAC to make recommendations including those that may be outside FSRA's current regulatory authority in which case they can be referred to the appropriate body. We will also explore what other information may be useful for FSRA to receive and share.

4.1.6 FSRA's Licensing System Lacks Efficiency and Its Renewal Process May Allow Insurance Agents to be Re-licensed Without Updated Criminal Record Checks Being Performed

We found that FSRA does not have a streamlined process to license entities other than insurance agents, despite being responsible for licensing insurance companies, agents, adjusters and health-care service providers (HSPs) in Ontario. As of June 30, 2022, about 310 insurance companies, 67,000 insurance agents, and 4,600 HSPs were licensed with FSRA. From 2018/19 to 2021/22, the number of applications received by FSRA from prospective insurance agents increased by over 8% to 35,315.

Outdated Licensing Systems Contribute to Inefficient Application Processing Work

FSRA's Market Conduct Division, which is responsible for licensing these entities and individuals, has an authorized complement of 124 full-time staff for 2022/23. FSRA uses legacy systems from its

predecessor FSCO to license market participants. The most commonly used system, ALIAS, has been used to license insurance agents since 2002. As part of our audit, we obtained walkthroughs of FSRA's licensing systems and processes from Market Conduct Division staff and noted the following:

- The process to license insurance adjusters is not linked to an application system. Adjusters must complete an online form that is uploaded and submitted to FSRA through an online portal. FSRA's Market Conduct Division team must then manually key in the information from the form into the adjuster database before starting the licence application review.
- FSRA has a watchlist of individuals who, for example, were caught cheating on a prior insurance exam or engaging in criminal activity. However, the ALIAS licensing system does not automatically monitor and flag if people on the watchlist make licensing requests. Instead, FSRA's licensing staff must check each applicant against the watchlist, which increases the risk that an individual who applies to be licensed and is on the watchlist is not identified and is allowed to be licensed. If an individual is found on the watchlist, FSRA will not license them without going through a review by an escalated unit. However, as mentioned above, given that this is a manual check, it is possible that an individual on the watchlist is not accurately identified when a licensing request is made.
- In discussing these points with licensing staff at FSRA, we found that, as a result of these limitations, FSRA's licensing systems lacks efficiency as the many manual steps within the process have contributed to long turnaround times and an inability to automatically integrate licence applications into a licensing system at the point of application. We also reviewed the backlog in processing licence applications at one point in time (May 2022) for both adjusters and insurance agents as FSRA's current systems do not have the capability to generate a pending report from the past. We noted that 62 adjusters and

1,178 agents were waiting to have their licence processed at that time. The average wait time for the approval of applications was about 64 days for adjusters and about 35 days for agents. FSRA explained that many of the individuals on these lists have not responded to the regulator when asked for additional items before being licensed, and this has slowed down the approval time. Although this is reasonable, upgrading its licensing system would allow FSRA to have greater data-tracking capabilities and may also help to reduce turnaround times.

Criminal Background Checks of Insurance Agents Not Consistently Performed on Licence Renewal Applications

In our walkthroughs of FSRA's licensing systems and processes, we noted that in order to obtain a general insurance licence, which allows an individual to sell automobile insurance (among other types of insurance), the individual must meet certain criteria including being sponsored by an insurance company and completing the Other Than Life Agent's Exam which allows agents to sell insurance other than life insurance. Applicants must also answer questions such as whether they have claimed bankruptcy, have a criminal record, or have been flagged by other regulators for issues such as penalties or licence suspensions.

FSRA conducts its own assessment of these individuals, using criminal background checks and checks with other regulators, but only when an individual is initially licensed and not upon renewal (unless the licensing system kicks the application out for review when an applicant is red-flagged or a disclosure prompts it).

There are many reasons for a renewal to not be automatically granted, such as the individual being red-flagged as noted above, an individual disclosing a criminal charge or offence, or an individual being found to omit such disclosure on their licensing renewal form. FSRA's renewal process largely depends on insurance agents self-reporting; individuals who have been charged with an offence or obtained a

criminal record after being initially licensed might indicate that they have not on their renewal application.

FSRA has an agreement with the Royal Canadian Mounted Police, giving it access to a Canadian Police Information Centre (CPIC) terminal at no cost to the regulator. This terminal allows FSRA to identify whether an individual has been charged and/or convicted with a criminal offence for all new applications and certain flagged renewals. However, FSRA does not check all renewal applications in this manner.

We selected a sample of 50 insurance agent renewal forms and asked FSRA to run a CPIC background check on the individuals. Three (or 6%) of the individuals sampled had been charged with a crime at some point in their lives, although we noted that no individuals were convicted, and all charges were either withdrawn or involved a stay of proceedings (when a court is ordered to stop or pause a legal case). Examples of these charges include theft, assault, and false pretences under \$1,000.

In all the cases we reviewed, the criminal charges related to before the initial licensing, and fortunately the cases were known by FSRA when the individuals were initially licensed. However, we noted that all three of the individuals who had been charged in the past responded "No" when filling out their licence renewal forms. This illustrates that agents may not always provide accurate information when self-reporting.

While it can be very time-consuming to run criminal background checks on all agent licence renewals, not doing so may allow individuals with recent criminal charges to sell insurance in Ontario. As such, there is a risk that some insurance agents may still have their licence renewed after having engaged in illegal conduct. FSRA's own Stakeholder Advisory Committee for Life and Health Insurance (made up of senior managers of insurance companies or sector participants) suggested in June 2020 that FSRA should enhance its licence renewal process for insurance agents.

Since FSRA is not prohibited from issuing or renewing a licence to those with charges or convictions, especially if they are very minor in nature, it is important that FSRA is vigilant in ensuring it has

fulsome and accurate information before determining whose licence should be renewed.

RECOMMENDATION 7

To ensure that private passenger automobile insurance companies, adjusters and agents are efficiently and fully reviewed for eligibility and suitability, and that necessary information is considered before making any automobile insurance-related licensing decisions, we recommend that the Financial Services Regulatory Authority of Ontario:

- implement an automated licensing system that includes improved information-capture capabilities (such as an online information system for the registration and licensing of all regulated automobile insurance sector participants), and enhanced controls (such as a hard-coded watch-list), to prevent individuals deemed ineligible and/or unsuitable for licensing from being licensed;
- review the current licensing requirements with internal staff and external stakeholders and strengthen them where the review concludes it would be appropriate to do so; and
- identify and perform a pre-determined number of criminal background checks and other licensing requirements, such as checks with other regulators, before renewing an insurance licence, using a risk-based approach.

RESPONSE FROM THE FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

FSRA acknowledges this recommendation. FSRA is implementing an automated licensing system as part of a broader project which will enable its core regulatory and other business areas to operate as a modern, efficient, outcomes-focused regulator. The licensing function is one of the priorities of the project and it is expected that automation will be implemented in aspects of FSRA's licensing processes.

There are presently licensing requirements for General Agents who work in Property & Casualty insurance, including automobile insurance. The requirements include a licensing exam and mandatory sponsorship by an insurance company at all times. FSRA will further review and recommend changes to strengthen the legislation as needed.

FSRA will review the requirement for criminal record checks on a risk-based approach for insurance licence renewals, and make the necessary changes to strengthen this process.

4.1.7 Factors Used to Determine Automobile Insurance Rates May Lead to Inequitable Rates Among Consumers Based on Gender or Where They Live

Each insurance company determines which rating variables to use in calculating an individual's automobile insurance premium. We found that Ontario allows insurance companies to use variables (such as sex/gender or territory) that other jurisdictions do not use or prohibit by law. For example, while Ontario allows these variables, Manitoba and Saskatchewan do not use an individual's age or sex to calculate insurance premiums. On the other hand, Ontario prohibits other rating variables (such as a credit-based insurance score used in Nova Scotia) by law that other jurisdictions permit.

We reviewed a sample of five rate applications received by FSRA from automobile insurance companies, which showed how these companies calculate their insurance rates. We found that some of the companies may use up to 20 rating variables to calculate each individual's premium, including age, sex/gender, driving history, territory, type of vehicle, years insured and marital status. While using more rating variables for individuals tends to reduce the impact of any one variable, and spreads risk and cost over large groups of people, we noted that using certain variables may create an inequitable situation for consumers, particularly those with a good driving history.

In our review of a sample of the rating applications submitted to FSRA, we found differences in how each

insurance company calculates a consumer's premium; when reviewing the impact of territory on insurance premiums, we found that different insurance companies weighted where a person lives differently. The difference can be as low as approximately 67% to as high as approximately 300%. For example, a territory comprising most of the GTA (a historically more expensive territory for private passenger automobile insurance) had an average annual premium of \$2,231 in 2021, while the Ottawa territory had an average annual premium of \$1,360 in 2021. FSRA confirmed that territory can impact an insurance premium in multiple ways, and there may be interaction within multiple variables. Insurance companies do this in order to reflect the impact of higher claims cost in the geographic area where a person lives. However, territory differences can encourage consumers to provide an address in a cheaper territory where they do not live, in order to reduce their premium, a source of fraud.

We obtained 10 quotes for private passenger automobile insurance from different insurance companies for a consumer where the only factor about the person we changed was where they lived in Ontario. Insurance rates for this individual ranged from \$1,200 per year (when the individual lived in London) to \$3,350 per year (when the person lived in Brampton).

The use of an individual's postal code as an insurance rating variable has been a topic of conversation in government and criticized by some as unfair. In March 2022, MPPs brought forward Bill 103, Ending Automobile Insurance Discrimination in the Greater Toronto Area (GTA), which proposes to consider the GTA as a single territory and to stop using single municipal geographic territories as a rating variable in the GTA. Historically, residents in certain municipalities, such as Brampton and Vaughan, have paid higher premiums on average compared to residents in other parts of the GTA and Ontario, even if individuals living in those municipalities have accident-free driving records, due to these being areas with higher claims costs overall. Use of the rating variable has allowed insurance companies to establish different rates for territories that are inherently riskier, for instance, based on driving conditions, driver behaviour, population density and

highways. We noted that companies are not permitted to use more than 55 territories in the province, and that Ontario's territory definitions are significantly outdated, as the last review of them was released in 2005 by FSRA's predecessor FSCO.

In April 2022, the Minister directed FSRA to review its territorial ratings framework and report its findings to the Minister of Finance. The Insurance Bureau of Canada (IBC) also stated in a July 2022 article that a review of current territory rules in Ontario may be beneficial.

We reviewed how insurance premiums are calculated in other Canadian jurisdictions. In the provinces with public insurance systems, the calculation of an insurance premium is much simpler. For instance, as shown in **Figure 19**, Saskatchewan does not calculate rates using age, gender or where an individual lives, but rather uses variables such as vehicle type and use, and the individual's driving record. Manitoba uses vehicle, territory, vehicle use and driving record as rating variables. Alberta, which has a private system like Ontario, uses similar variables as Ontario to calculate insurance premiums. We noted that in 2021, Alberta implemented an updated method of using territories in the calculation of insurance premiums, whereby the cap on the number of territories to be used was removed, leaving it up to automobile insurance companies' actuarial data to determine how many territories are necessary. All territories must be approved by the province's regulator. FSRA should review the impact of this decision on Alberta's private passenger automobile insurance rates to help it determine the most appropriate changes to make regarding the inclusion of territory in consumer's private passenger automobile insurance rates.

We also found that certain Canadian provinces (such as Manitoba and Saskatchewan) in addition to other jurisdictions around the world—including the European Union and multiple US states (such as California, Hawaii, Massachusetts)—have eliminated the practice of using an individual's sex/gender to determine their insurance premium, on the basis of this being inequitable. It was noted in some of these jurisdictions that although this practice was banned, male drivers still paid higher insurance rates than women,

Figure 19: Examples of Rating Variables Used to Determine Private Passenger Automobile Insurance Premiums in Selected Provinces

Prepared by the Office of the Auditor General of Ontario

Rating Variable	AB	SK	MB	ON
Age	✓			✓
Sex/Gender	✓			✓
Marital Status	✓			✓
Territory ¹	✓		✓	✓
Driving History/Record	✓	✓	✓	✓
Vehicle Type	✓	✓	✓	✓
Vehicle Use ²	✓	✓	✓	✓
Years Insured	✓	✓		✓
Kilometric Travel ³	✓			✓

1. Territory only impacts the insurance rates taxi drivers pay in Saskatchewan.

2. In Saskatchewan, vehicle use may be used as a rating variable, for example, when an individual is renting their vehicle for compensation.

3. In Saskatchewan, kilometric travel is not generally factored into rates for private passenger vehicles for personal use. This may be used in some of the commercial classes, as well as for Transportation Network Companies, such as Uber, in the province for drivers participating in ride sharing.

assuming that male drivers, overall, create a higher claim cost to automobile insurance companies than female drivers. This has meant that men with good driving records have to pay a higher premium simply because other men are higher-risk drivers. Based on the data we assessed, we found that men, on average, generally do pay higher insurance premiums than women.

We noted that insurance companies also differ in the way they use sex/gender in their calculation of premiums, such as reducing rates at different ages depending on sex. For instance, as part of our review of filing applications, we noted that for one insurer, males do not always pay more than females. Males between ages 16 and late 20s, and above late 50s, generally pay around 15% more, on average, than their female counterparts for two coverage categories included in an insurance premium (bodily injury and property damage). However, in this example, females typically pay more for accident benefits across most ages.

To date, FSRA has not analyzed how changes to the current rating variables (specifically, removing sex as a variable for calculating premiums) would impact consumers. FSRA has completed a territorial analysis internally and has identified how removing territory

as a rating variable could impact average premiums by geographic location in the province. For instance, with this variable removed, residents in the GTA would see a reduction in their average premium by \$543, while Ontarians in Ottawa–Carleton would pay \$503 more, on average, to subsidize the removal of territory as a rating variable. However, despite Ontario's population growing about 20% between 2005 and 2022 (from about 12.5 million people in 2005 to about 15.1 million in 2022) and the population change in each territory occurring at a different rate (for example, between 2005 and 2022, the Kitchener-Cambridge-Waterloo area grew over 30% from about 445,000 people in 2005 to about 579,000 in 2022), FSRA, as noted above, has not yet updated the territory definition guidance used by insurance companies for determining automobile insurance rates to keep up with demographic changes that have occurred over the past 17 years (since 2005). However, in June 2022, FSRA began a Territory Research Project to identify ways to make territorial ratings fairer for consumers. It is working with an external consultant to review the existing territory guideline requirements; establish a new principles-based territory guidance; and identify, detect and

measure unfair discrimination. FSRA's preliminary review is expected to be completed in March 2023.

RECOMMENDATION 8

To maintain a regulatory environment where private passenger automobile insurance rates are based on equitable factors in determining insurance premiums to be paid by Ontarians, we recommend that the Financial Services Regulatory Authority of Ontario:

- conduct a review (including consultation with the Ministry of Finance, relevant stakeholder groups and the public) of the objectivity and fairness in insurance companies' use of certain rating variables to determine insurance premiums, such as the insurance purchaser's address, sex/gender and age;
- analyze the impact of removing or changing existing rate variables in insurance premium calculations;
- complete the review of its territory-based framework, and if necessary, update current territory definitions, identify the impact to average premiums of having both fewer and/or more territories in Ontario and make related recommendations;
- provide the results of the above reviews to the Ministry;
- publicly report on the results of the reviews; and
- implement the recommended changes to how automobile insurance companies can determine and charge for insurance premiums.

RESPONSE FROM THE FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

FSRA thanks the Auditor General for its recommendation regarding automobile insurance rates including factors that determine premiums. While certain rating variables are outside FSRA's authority to regulate private passenger automobile insurance rates (e.g., prohibited variables such as credit scoring), FSRA reviews insurer rates and

underwriting rules for actuarial soundness and compliance with legislative requirements. FSRA notes, however, that prohibiting statistically sound rating variables could result in unfairness.

In FSRA's 2023–2024 draft Statement of Priorities, FSRA proposes to begin execution of its strategy for reforming the regulation of automobile insurance rates and underwriting in Ontario. This will consider the recommendation of the Auditor General and include, for example, continuing the review of the territory-based framework as directed by the Minister of Finance in April 2022.

The strategy is aimed at making FSRA's oversight more dynamic, flexible, and transparent for Ontario's consumers to ensure fair rates. Planned outcomes include a reformed legal and supervisory framework as well as improved sector operations that enable market entry, responsiveness, and innovation, and deliver value for money to consumers. Finally, we expect the strategy to empower consumers to make more informed decisions by enhancing transparency and providing more resources to improve their understanding of automobile insurance. Consultations on the strategy will continue in late 2022. We will consider what additional reviews should be conducted in addition to the territory-based review and other research in progress.

5.0 Detailed Audit Observations – Credit Unions

5.1 Credit Union Sector Oversight Needs Improvement

As the financial regulator of the credit union sector, FSRA is responsible for conducting key activities to ensure that credit unions are complying with all necessary rules and regulations and have good processes in place to reduce the risk of insolvency. FSRA does this through activities such as collecting information, monitoring credit union financial indicators, and

conducting inspections of regulated entities. Prior to 2019, these were the responsibility of the Deposit Insurance Corporation of Ontario (DICO). FSRA's initial regulatory processes followed those that DICO had implemented; we noted weaknesses with these processes and that FSRA has made improvements on a number of these.

Our audit found that FSRA's credit union inspection process has not been thorough or timely, and it has not confirmed whether issues found were actually resolved by inspected credit unions. FSRA's inspection process has been similar to the approach used by the Deposit Insurance Corporation of Ontario (DICO), which failed to detect the inappropriate processes used by Pace Savings and Credit Union Limited (PACE). In April 2022, FSRA implemented a new inspection process called the Risk-Based Supervisory Framework (RBSF). However, our audit found that the RBSF was launched prior to the release of a third-party report containing findings and lessons learned from the fraudulent practices that occurred at PACE (such as inappropriate payments to senior management and unlawful sales practices by PACE employees), and is still being developed to fully address the weaknesses we noted above. Further, FSRA does not consider all relevant information to determine what fees credit unions should pay into the Deposit Insurance Reserve Fund (DIRF), which would be available to reimburse members in the event of a credit union's insolvency. The DIRF is presently underfunded compared with similar funds in other Canadian provinces and FSRA's own historical target. These findings are discussed in greater detail below.

5.1.1 FSRA Did Not Inspect Credit Unions Thoroughly or in a Timely Manner and Did Not Ensure Issues Found Were Resolved

Our review of FSRA's credit union inspection process noted a number of weaknesses, including:

- **Inspections were incomplete**—For a sample of 20 inspections selected, we noted that eight did not collect fulsome information to evaluate governance at the credit union (such as how the

credit union's board operates) as this area was not included in the scope of the inspection. For instance, we found that in two inspections, there was no evidence that FSRA had assessed the effectiveness of the credit union's internal audit practices. Without a complete governance evaluation, FSRA may end up with an inaccurate risk profile for these credit unions, putting consumer deposits at risk.

- **Little action was taken to ensure inspection findings were resolved**—In four of the 20 credit union inspections we reviewed, we identified that an issue raised in the previous inspection of that credit union recurred in the subsequent inspection, even though the credit union's board of directors had provided a written attestation to FSRA that the necessary change had been made to prevent recurrence. For example, in 2018, FSRA's predecessor DICO inspected a credit union and identified that there was no evidence of sufficient board oversight of the audit committee, including audit committee duties that were unfulfilled such as assessing the independence and effectiveness of the internal auditor. The credit union's board provided an attestation in December 2019 that all issues were addressed. However, FSRA found the same deficiency still present in its inspection of the credit union in 2021.
- **Credit unions have little incentive to implement governance recommendations made by FSRA**—FSRA does not ensure credit unions resolve inspection findings after the inspection is completed, and has not taken any enforcement actions (such as levying an administrative monetary penalty) when repeat issues are found. We also found that FSRA's current methodology to determine the value of insurance premiums required to be paid by a credit union into the Deposit Reserve Fund (DIRF) gives less weight to FSRA's assessment of the credit union's governance practices (36% of the rating used to determine the value of the insurance premium) compared to a single financial factor of the credit union (64% of the rating used to determine the

value of the insurance premium). As a result, even when FSRA identifies significant governance deficiencies during an inspection, a credit union may choose to continue to operate with poor governance practices as the cost to improve its governance practices may be higher than the increased premium amount FSRA determines it must pay into the DIRF.

- **FSRA has not performed inspections of credit unions with the frequency of its policy targets**—There has been a 60% reduction in the number of inspections FSRA performed in 2021 (20) compared to the number DICO performed in 2017 (54) (see **Figure 20**). FSRA informed us that they are relying less on consultants to complete these inspections compared to DICO. Per **Figure 21**, FSRA has less than half the staff than its counterpart in British Columbia, despite the credit union sector being similarly sized and

each regulator having similar responsibilities.

As of June 30, 2022, FSRA will not be able to inspect 14 (or 21%) of all the credit unions it regulates within 36 months of their last inspection, which was FSRA's prior target time frame before the implementation of its Risk-Based Supervisory Framework in April 2022 (see below). As of June 2022, FSRA had 17 (or 68%) of the 25 staff it believed were necessary to complete all inspections on time based on its prior target time frame.

Appendix 14 provides further details about these weaknesses and our related findings.

We noted that FSRA has started implementing a new Risk-Based Supervisory Framework (RBSF), which replaced the previous credit union oversight process in April 2022. However, the RBSF still lacks the documented policies and procedures to fully address all of the inspection weaknesses we identified above. Also,

Figure 20: Number of Credit Unions and Inspections Conducted 2017–2021

Source of data: Financial Services Regulatory Authority of Ontario

Year	2017	2018	2019	2020	2021	% Change
Total number of credit unions and caisses populaires	93	78	77	62	61	(34)
Number of inspections conducted per calendar year	50	41	32	24	20	(60)
% of sector inspected	54	53	42	39	33	(39)

Note: Inspections up to June 7, 2019 relate to those done by the Deposit Insurance Corporation of Ontario, and those on or after June 8, 2019 relate to those done by the Financial Services Regulatory Authority of Ontario.

Figure 21: Jurisdictional Comparison of Credit Union Regulatory Agencies and Staffing Levels

Source of data: Financial Services Regulatory Authority of Ontario

Measure	Province				
	ON	BC	MB	SK	AB
Supervisory Staff (Full-Time Equivalent)	30	66	24	28	26
Credit Unions in the Sector (#) (Dec 2019)	77	42	26	40	16
Regulator's Supervisory Staff per Credit Union (#)	0.39	1.57	0.92	0.7	1.6
Sector Assets (\$ million) (Dec 2019)	70,376	72,014	28,599	19,740	23,412

Note: FSRA conducted the jurisdictional analysis in October 2020.

given that it was only recently implemented, we were unable to assess whether RBSF does fully correct for these weaknesses. FSRA's previous inspection process provided prescriptive guidance over what the credit union should do to resolve an issue identified in an inspection. In contrast, the new framework is considered to be outcome-focused. This means that while FSRA will still provide recommendations based on its inspection findings to credit unions, it will expect the credit unions' boards to determine how best to address those findings. FSRA informed us that its intention with the new framework is to also place more responsibility on a credit union's board of directors and audit committee to resolve the inspection finding recommendations FSRA provides as part of inspections. FSRA will then use inspection information to better monitor the risk of insolvency and determine the rate of deposit insurance premiums to be paid into the DIRF by each credit union (see **Section 5.1.3**).

FSRA informed us that it will consult with the sector on a proposal for a new DIRF premium score methodology, which it expects will be partially determined from the findings of its inspections. It will then finalize its proposal and work with the Ministry of Finance to propose amendments to a regulation under the *Credit Unions and Caisses Populaires Act, 2020*. This process may take a few years to complete. Given that the current premium calculations provide little incentive for credit unions to improve on governance practices, as noted in **Appendix 14**, thought should be given to how to encourage credit unions to improve governance practices in the meantime.

As noted, FSRA has not documented a process to confirm inspection findings are resolved. We found that it has also not established a target time frame for how frequently credit unions should be inspected under the RBSF.

RECOMMENDATION 9

To ensure that it provides effective oversight of credit unions to protect members' deposits, we recommend that the Financial Services Regulatory Authority of Ontario:

- regularly collect information to conduct assessments of all key governance processes of credit unions (such as board operations, internal auditing, and functions of the audit committee of the board as well as processes related to the issuing and monitoring of loans), as part of its inspections of the credit unions;
- implement a process to collect and review documentation that shows credit unions implemented corrections to address each issue in its inspection results;
- levy penalties for credit unions that provide inaccurate or misleading information on actions taken to address inspection findings;
- re-evaluate the methodology used to determine the rate of insurance credit unions are required to pay into the Deposit Insurance Reserve Fund in order to determine a more appropriate weighting for the governance score;
- complete an assessment to determine the optimal number of qualified inspection staff based on a targeted frequency of credit union inspections; and
- develop and execute a plan to achieve this frequency of credit union inspections.

RESPONSE FROM THE FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

FSRA appreciates the Auditor General's recommendation and acknowledges the importance and benefits of regularly collecting and assessing all key governance processes of credit unions. With the enactment of the FSRA rule in 2021 on Standards of Sound Business and Financial Practices and the implementation of the Risk-Based Supervisory Framework (RBSF) as of April 2022, FSRA is prioritizing and continuing to regularly collect information to conduct assessments of all key governance processes of credit unions as part of its supervisory reviews. FSRA will continue the implementation of this principles-based, proportional process to collect and review data, documentation,

and information that evidence whether desired outcomes have been achieved and, where they are not, whether appropriate remediation is underway or has been completed. This will verify that the credit union has implemented corrective actions and has resolved the material and root cause issues identified by FSRA. Once the initial RBSF assessment cycle is completed, all credit union risk profile assessments will be updated on an annual basis and examinations will be prioritized and focused based on the identified risks.

FSRA acknowledges the Auditor General's recommendation that FSRA should levy financial penalties against credit unions that provide inaccurate or misleading information—FSRA will review its processes with a view to strengthening our investigation and sanction processes.

FSRA agrees with the Auditor General that changes are required to the methodology to better assess deposit insurance premiums based on the risk profiles of credit unions. Work has been completed to develop a new methodology that incorporates credit union risk profile ratings as determined through the RBSF process. The proposed deposit insurance premium methodology will undergo a public consultation this fiscal year. Following this consultation, FSRA will incorporate feedback and expects to proceed with a phased implementation of the new methodology with the credit union sector.

FSRA agrees with the Auditor General that we currently do not have the optimal number of qualified supervisors to conduct all necessary supervisory reviews, particularly as the RBSF process requires sophisticated skills and experience. FSRA has conducted a resourcing assessment, restructured the credit union supervision department, added new positions and staff in 2022, and will continue to progress toward reaching an optimal level of staffing by the 2024/25 fiscal year. As these costs are borne by the sector, FSRA will continue to work with credit unions to appropriately resource the credit union supervision team over the next two years.

5.1.2 Learnings from PACE Credit Union's Inappropriate Practices Not Yet Fully Incorporated in Inspections

Prior to the new inspection framework launched in April 2022, FSRA's inspection process was similar to the one used by its predecessor, DICO. DICO's 2015 and 2017 inspections of PACE Savings and Credit Union Limited, a major credit union, did not identify the significant governance deficiencies that were occurring at PACE. FSRA took over as the administrator of PACE from DICO in June 2019. While FSRA made some changes to its inspection processes compared to what was used by DICO, it took FSRA over three years to obtain an external advisor's analysis of the root causes of the issues that emerged at PACE to determine how the inspection process it uses can be improved to prevent similar inappropriate activities from occurring at other credit unions.

PACE, headquartered in Vaughan, Ontario, began operating in the 1960s. In December 2021, it had over 40,000 members and held over \$900 million in member deposits accessible through 13 locations. In October 2017, DICO received a whistle-blower letter alleging that fraud was occurring at PACE, and subsequently initiated an investigation to assess the allegations. In November and December of 2017, DICO received additional information to support the original letter, and in May 2018 it hired an external firm to perform an investigation of PACE.

The investigation found evidence of activities at PACE that potentially contravened the *Credit Unions and Caisses Populaires Act, 1994* (Credit Union and Caisse Populaire Act), such as engaging in non-compliant loans, paying secret commissions to senior management, and engaging in self-dealing (whereby PACE's senior management directly profited on loans provided by PACE to another organization). The investigation also identified governance issues with PACE's board of directors and senior management, such as negligence and breach of fiduciary duty in approving transactions, inadequate oversight of senior management, and a lack of appropriate oversight of activities where there were conflicts of interest. For example, PACE's Audit Committee Chair reviewed and approved

loans to subsidiaries that involved inappropriate fees being paid to senior management at PACE.

While DICO's investigation was ongoing, in September 2018, another whistle-blower letter was sent to DICO indicating that they believed the slow pace of action by DICO caused "serious additional harm to the members and employees" of PACE. Later in the same month, based on preliminary findings from its own investigation, DICO placed PACE under administration. In December 2018, DICO terminated PACE's chief executive officer. In June 2019, FSRA took over the administration of PACE from DICO.

PACE had been inspected by DICO regularly as part of DICO's routine inspection process of all credit unions, which is similar to the process discussed in **Section 5.1.1** and **Appendix 5**. In its last two inspections performed of PACE (in 2015 and 2017), DICO gave PACE near-perfect scores related to the credit union's governance practices. In 2017, DICO inspectors identified several important governance deficiencies. However, it did not act to expand the work done during the inspection to more fully assess the potential impact of those deficiencies on PACE's operations.

For example, the 2017 inspection found that:

- PACE's internal audit spent less than three days per year reviewing commercial transactions to ensure they complied with all regulatory requirements. This was noted in the inspection as being an insufficient amount of time;
- PACE did not keep accurate records of related-party transactions and loans; and
- PACE's board did not maintain sufficient minutes on directors' deliberations on significant matters such as the approval of mergers, real estate investments, the business and strategic plans.

We noted that inspections conducted by DICO and FSRA between 2013 to 2020 identified many governance non-compliance issues with credit unions.

From 2013 to 2016 (inclusive), DICO's inspections identified on average 12 governance deficiencies per year for all credit unions inspected in that year. From 2017 to 2020 (inclusive), governance deficiencies identified increased to an average of more than 72 per year. As well, in the period of 2013–2016, 40% of the

total deficiencies found were related to issues with a credit union's internal audit practices and board governance. In the period of 2017–2020, this increased to 78% of all deficiencies. Our review also noted that in 2017 (prior to the issues at PACE being identified to DICO by a whistle-blower), DICO started implementing changes to its inspection process—such as starting to inspect whether credit unions were following guidance released by DICO in 2015 that outlined better corporate governance practices that credit unions should follow—that contributed to more findings occurring in inspections after 2017.

Issues at PACE continued or were only discovered while under FSRA's administration. For example, sales practices by PACE employees between July 2017 and June 2019 were found to be in breach of regulations and resulted in an approximately \$29 million settlement from affected investors against PACE that was covered by the DIRF. In November 2020, PACE's interim board and chief executive officer resigned, partially over differences with FSRA in how credit union members and creditors were to be compensated for their losses. As well, a 2021 investigation of a PACE employee confirmed that the employee was responsible for over \$10 million in fraudulent loans over a 13-year period (2008–2021). In April 2022 (almost three years after taking over regulatory oversight of credit unions and administration of PACE from DICO), FSRA engaged a third party to start a review to identify whether its current regulatory approach over credit unions was more effective than that of DICO, and whether FSRA's processes had any gaps or potential weaknesses that needed to be addressed. In October 2022, the report was finalized. We noted that FSRA had started action on a plan to address the recommendations in the report.

As noted in the DIRF financial statements for the year ended March 31, 2022, as of June 30, 2022, FSRA, in its role of the administrator of PACE, sold most of the assets and liabilities of PACE to another credit union (Alternia Savings and Credit Union Limited). The contractual agreement of the sale limits any further PACE-specific impact to the DIRF up to \$155 million for a five-year period (until June 30, 2027).

In February 2022, FSRA's external advisor estimated that if PACE went insolvent and was not acquired by a third party, this could lead to payments from the DIRF between \$60 million and \$340 million, which would reflect a significant portion of the DIRF's total value (\$383 million as of June 30, 2022, as discussed in **Section 5.1.3**). As such, the external analysis recommended that, even with the potential of \$155 million in DIRF payments that could occur as a result of the sale, FSRA should move forward with the sale of PACE, which was finalized on June 30, 2022.

We also noted that FSRA, in its capacity as the administrator of PACE, did not require PACE to obtain a financial statement audit for the fiscal year ended December 31, 2021. The previous auditor of PACE had withdrawn their audit opinions for the years ended December 31, 2018, 2019 and 2020 as a result of a fraud that resulted in a material misstatement to the consolidated financial statements. Considering the significance of the purchase and assumption transaction related to PACE and the potential impact to the DIRF, we believe that an audit of PACE's consolidated financial statements should have been performed.

RECOMMENDATION 10

To better safeguard credit union member deposits and to improve consumer confidence in the credit union sector and how it is regulated, we recommend that the Financial Services Regulatory Authority of Ontario develop a plan and implement the necessary changes identified in its root cause analysis.

RESPONSE FROM THE FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

FSRA agrees with the Auditor General on the importance of safeguarding member deposits and improving consumer confidence. In 2022, to learn from the events that led to the PACE Savings and Credit Union Limited administration by the Deposit Insurance Corporation of Ontario (DICO) (a predecessor regulator that amalgamated with FSRA in

June 2019), FSRA engaged an independent expert third party to review DICO's supervisory practices and make recommendations to FSRA on the root causes of supervisory issues contributing to this credit union failure. FSRA has developed and is in the process of taking action on a plan to address all recommendations that will further enhance the quality of our assessments of credit unions and expects to complete this in 2023.

5.1.3 Funding of the Deposit Insurance Reserve Fund Is Insufficient

Limited Financial Information Used to Determine Premium Paid by Credit Unions into the DIRF

In 2018, the Credit Union and Caisse Populaire Act was amended (and later proclaimed in 2019) to require FSRA to maintain the Deposit Insurance Reserve Fund (DIRF) for the primary purpose of paying deposit insurance claims in the event of a credit union insolvency. The DIRF may also be used in some additional limited circumstances by FSRA for a credit union that is under administration—such as to support an orderly closure in a liquidation scenario (as was the case for PACE).

The DIRF is funded by credit unions' annual contributions that are based on a percentage (generally 0.75% to 1.75%) of the total amount of insured deposits held by each credit union. The determination of the percentage (or premium) is based on two components assessed by FSRA: a single financial factor which assesses the relative riskiness of a credit union's assets (see below) accounts for 64% of the rate paid, and three governance factors comprise the remaining 36%. These three governance factors are how the credit union's board operates, how the credit union's internal audit department and its board's audit committee function, and the credit union's processes related to the issuing and monitoring of loans to credit union members.

We found that although FSRA collects dozens of financial measures on credit unions as part of its other regulatory activities, it only considers one financial factor (a score it calculates based on the relative riskiness of the assets and investments a credit union holds)

to calculate the 64% portion of the score, known as the “capital score.” Even if a credit union’s capital score is considered lower than that of other similar credit unions, FSRA still gives the credit union a perfect capital score as long as it meets the regulatory requirement (at least 14% of a credit union’s risk-weighted assets, calculated based on a rule from FSRA that identifies the level of risk that should be applied to each asset class, must be what is known as “regulatory capital”, which is primarily a credit union’s investments and retained earnings).

We also found that this single factor does not provide for an accurate measure of overall financial risk at each credit union. Since 2019, FSRA has developed various monitoring tools which collect dozens of financial factors used to establish a peer group comparison for each credit union. We asked FSRA to identify key financial performance measures it uses to assess credit

union health and performed a comparative peer group analysis of credit unions with capital scores above 90% (a score of 57 or more out of a maximum of 64). We found that 10 credit unions with nearly perfect capital scores had lower key financial performance measures in some instances than those of their relative peers. We also found that three of these 10 credit unions were on FSRA’s “watchlist” for poor or deteriorating performance. However, neither of these issues impacted the 64% portion of the insurance premium score. This suggests that some credit unions are paying lower premiums into the DIRF than they would be if FSRA considered more financial factors in assessing the insurance premium score (see **Figure 22** for details).

We found that other jurisdictions including British Columbia and the federal regulator of banks (OSFI) use more financial factors in assessing the premium required to be paid into their deposit insurance fund.

Figure 22: Credit Unions with High Capital Scores and Lower Comparative Scores Across Key Performance Measures

Source of data: Financial Services Regulatory Authority of Ontario

Credit Union	Capital Score (out of 64)	Leverage ¹	ROAA ²	Liquidity Ratio ³	Delinquencies Over 30 Days ⁴	On the Watchlist ⁵
Credit Union A	64.0	■	■	■	●	×
Credit Union B	64.0	●	●	●	●	✓
Credit Union C	64.0	●	●	■	●	×
Credit Union D	64.0	■	●	●	●	×
Credit Union E	64.0	●	●	■	■	×
Credit Union F	64.0	●	●	■	■	×
Credit Union G	62.7	●	■	●	●	✓
Credit Union H	59.4	■	●	■	■	✓
Credit Union I	59.2	■	●	●	●	×
Credit Union J	57.0	●	●	■	●	×

● - Indicates the credit union performed relatively better than its peer group.

■ - Indicates the credit union performed relatively worse than its peer group.

Note: The Financial Services Regulatory Authority of Ontario (FSRA) determines each credit union’s peer group based on details it collects of the credit union’s size and assets held.

1. Capital adequacy as a percentage of net assets.

2. Return on Average Assets (ROAA)—an indicator used to assess the profitability of the credit union’s assets.

3. Indicator of liquid assets over liabilities.

4. Interest and principal on loans provided by the credit union to its clients past due over 30 days.

5. FSRA-identified credit unions with significant issues that require more frequent monitoring or supervisory action.

For example, British Columbia's credit union regulator uses 10 financial measures to assess the financial performance of a credit union and the associated rate the credit union should pay into its deposit insurance fund.

We discussed this with FSRA staff, who agreed that a single measure does not represent all financial risks at a particular credit union. FSRA staff informed us that it is in the process of building a new model which will better incorporate other financial risks into the insurance premium calculation, and that they are working on improving their peer comparison model to make it more useful. No date for the completion of this model was provided.

FSRA Does Not Ensure Credit Union Members Are Fully Aware of Insured Deposit Limitations

Ontario credit union deposits were historically insured up to \$100,000 per depositor (or credit union member) in non-registered accounts (such as savings and chequing accounts), while registered accounts (such as registered retirement savings plans and tax-free savings accounts) have unlimited insurance coverage. As of January 2018, the amount of non-registered credit union deposits insured increased up to a maximum of \$250,000 per depositor. In 2018, the Credit Union and Caisse Populaire Act was amended (and later proclaimed in 2019) to identify that insured deposits could only be claimed by depositors in the event of a credit union failure up to the total value of assets available in the DIRF, and that the Ontario government has no statutory obligation to provide funding to the DIRF if its assets are not sufficient to meet all claims. Prior to this, the legislation did not explicitly limit claims by depositors in relation to insured deposits to the funds available in the DIRF. Overall, not all deposits may be fully protected in certain scenarios where the DIRF is insufficiently funded unless the provincial government at the time decides to step in.

We found that FSRA's guidelines did not require credit unions to clearly identify and reference the DIRF limitation in their public materials. For example, we noted that a credit union advertising chequing and savings accounts referenced that FSRA protects deposits up to \$250,000, but did not note that this

insurance is limited to the assets in the DIRF. Therefore, a consumer would likely not understand the overriding limit on FSRA's liability for deposit insurance and the risks that poses to their investments. In July 2022, we raised this concern with FSRA, particularly that it would not be reasonable to conclude that a consumer would understand the limit for deposit insurance to the amounts in the DIRF (as a result of the amendment to the Credit Union and Caisse Populaire Act in 2018 occurring without full discussion and public debate on the issue). On September 6, 2022, FSRA publicly issued a requirement to credit unions to include the wording that "the liability of FSRA to insure deposits held at Ontario credit unions is limited to the assets of the Deposit Insurance Reserve Fund." While this was done to improve credit union members' understanding of the degree that their eligible credit union deposits are insured; the 2018 legislation change has not been publicly communicated (other than the legislation being publicly accessible). Existing credit union members may be surprised to learn about this.

We noted that British Columbia's credit union regulator also discloses that deposit insurance is subject to the assets of its deposit insurance fund. However, their disclosures are more explicit in identifying that the provincial government does not guarantee additional funding nor provide a separate deposit insurance guarantee.

We also noted that the overall level of protection for insured deposits in Ontario's credit unions appears weaker than that provided federally in relation to insured bank, trust and loan company deposits. Bank deposits are insured (up to \$100,000 for each insured category, such as for amounts held in tax-free savings accounts or registered retirement savings plans). The Canada Deposit Insurance Corporation operates the Deposit Insurance Fund, which provides basic protection coverage to depositors for up to \$100,000 of eligible deposits with each member bank, trust or loan company. Canada's Public Accounts discloses that "in the event that the corporations [including the Canada Deposit Insurance Corporation] have insufficient funds, the government will have to provide financing." While in practice the Ontario government may provide

additional funding if the DIRF does not have enough funds to meet future claims, the overall protection for Ontario credit union members now appears weaker than what exists for insured deposits through the Canada Deposit Insurance Corporation. Historically, credit unions have used the deposit protection as an important membership draw.

DIRF Is Less Funded than Its Counterparts in Other Provinces and FSRA's Target

FSRA must ensure it has access to an appropriate level of liquidity (funding or access to cash) to cover the ultimate cost of a credit union failure in a timely manner. The DIRF is one of five sources of liquidity that FSRA can access in the event a credit union is placed under administration or fails. The other four sources are the credit union's liquidity resources; the credit union's line of credit with its lender, if available; a line of credit established in 2013 under DICO with the Ontario Financing Authority (OFA); and an increase in deposit insurance premium rates and/or payment of a special levy (a step that would require Ministry approval). The primary purpose of establishing a line of credit with OFA was to address challenges in the Ontario credit union sector that could result in deposit insurance obligations requiring resources beyond those in the DIRF.

As per **Figure 23**, as of September 30, 2021, despite the average premium rate that Ontario credit unions pay into the DIRF (per \$1,000 of insured deposits they hold) being higher than what credit unions pay

in other provinces, the DIRF is less well-funded than its counterparts in other provinces, and FSRA's target funding for the DIRF (of 1% of insured deposits, or about \$473 million) is also lower than that in other provinces.

Each year, FSRA is required to submit a DIRF adequacy report (which is developed with the help of an actuary to assess the likelihood the DIRF can cover insured deposits of future credit union insolvencies) to the Ministry. For example, in 2021, FSRA engaged a consulting firm that identified that the DIRF should be funded to 1% of insured deposits to ensure it can pay anticipated future claims against the fund. Since the early 2000s, the DIRF has been underfunded well below 1%. In 2021, FSRA estimated that it will reach its target in insured deposits of 1% by 2025. However, as of June 30, 2022, the DIRF was reduced to about \$383 million (due to the settlement against PACE that was covered by the DIRF, as discussed in **Section 5.1.2**), or about 0.79% of insured deposits (from 0.83% in 2021), which is about \$100 million below the targeted 1% (about \$480 million). In addition, due to the PACE sale agreement, payments of up to \$155 million could need to be made from the DIRF. If payments of \$155 million do actually occur, this would effectively lower the available funds in the DIRF to \$228 million, or about 0.47% of insured deposits. As such, it is unlikely that FSRA will meet its target of insuring 1% of deposits by 2025.

Figure 23: Jurisdictional Comparison of Deposit Reserve Funds, as of September 30, 2021¹

Source of data: Financial Services Regulatory Authority of Ontario

Reserve Fund	Province					
	ON	BC	AB	SK	MB	QC
\$ million	393	829	423	350	402	1,317
% Insured Deposits ²	0.83	1.33	1.78	1.53	1.18	1.09
Target % Insured Deposits	1	1.05–1.35	1.4–1.6	1.4–1.6	1.05–1.3	1.30–1.5
Avg Premium Rate (\$) ³	0.81	0.78	0.5	0.8	0.8	0.5

1. This jurisdictional comparison was done on a one-off basis as part of the Financial Services Regulatory Authority of Ontario conducting an adequacy review of the Deposit Insurance Reserve Fund.
2. The value of the deposit reserve funds relative to the total insurable deposits.
3. The average of all credit union premiums for every \$1,000 of insurable deposits maintained.

RECOMMENDATION 11

To ensure the Deposit Insurance Reserve Fund (DIRF) is adequately funded to protect eligible credit union member deposits, we recommend that the Financial Services Regulatory Authority of Ontario work with the Ministry of Finance to:

- identify and implement multiple financial factors in the DIRF insurance premium calculation charged to credit unions;
- identify under what circumstances the Province would provide funding to cover DIRF claims that exceed the assets of the DIRF; and
- regularly assess if insurance premiums are sufficient to keep the DIRF at a level of funding comparable with that in other provinces.

RESPONSE FROM THE FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

FSRA agrees with the Auditor General that the Deposit Insurance Reserve Fund (DIRF) should be adequate to protect eligible credit union member deposits in the event of a credit union insolvency. The proposed amendments to the deposit insurance premium calculations (see **Recommendation 9**) include Risk-Based Supervisory Framework (RBSF) risk ratings as one of the components in determining the overall premium. The risk ratings determined through the RBSF methodology comprehensively include the assessment of many financial factors. FSRA is also working with the credit union sector on the Enhanced Data Collection initiative which will facilitate enhancements to better determine the appropriate size of the DIRF.

The Ontario Financing Authority (OFA) currently provides a \$2 billion credit facility to FSRA, which is publicly disclosed. This OFA credit facility is intended to provide funds to FSRA for liquidity purposes that can be used to supplement the DIRF and assists FSRA in fulfilling its statutory objects (e.g., to minimize losses to depositors and the DIRF, ensure sector stability). FSRA will work with the Ministry to consider if any additional public

disclosures may be necessary to identify under what circumstances the Ontario government would provide funding to cover deposit insurance claims that exceed the assets of the DIRF.

We will continue to regularly assess if the DIRF has sufficient funding or credit facilities to adequately protect eligible credit union member deposits or if changes are needed (such as to the insurance premium charged to credit unions).

MINISTRY RESPONSE

The Ministry acknowledges the importance of protecting members' deposits. The Ministry also supports FSRA's ongoing work to modernize the DIRF insurance premium calculation model and to regularly assess the sufficiency of the DIRF.

In accordance with the *Credit Unions and Caisses Populaires Act, 2020*, FSRA administers the DIRF which provides deposit protection coverage to eligible credit union depositors for up to \$250,000 of eligible deposits plus all insurable deposits in registered accounts with each member credit union. Under the Act, the liability of FSRA to insure deposits held at Ontario credit unions is limited to the assets of the DIRF.

The DIRF also provides financial support to credit unions. In the event that the credit unions have insufficient funds, the government can provide financing.

The Ministry will work with FSRA to consider under what circumstances the Ontario government would provide funding to cover deposit insurance claims that exceed the assets of the DIRF.

RECOMMENDATION 12

To ensure that credit union members are aware of the change that was made that impacted the protection of their deposits, we recommend that the Financial Services Regulatory Authority of Ontario communicate directly to credit union members through their credit unions that a 2018 legislative change to the *Credit Unions and Caisses Populaires Act, 1994* resulted in the credit union deposit

guarantee being limited to the assets of the Deposit Insurance Reserve Fund.

RESPONSE FROM THE FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

We agree with the importance of communicating transparently with credit union members and the public regarding limitations of the DIRF coverage. As per FSRA's 2019 Deposit Insurance Advertising Rule, all credit unions are required to provide a FSRA brochure to their members outlining the details of the deposit insurance coverage. In addition, credit unions are required by this rule to have a hyperlink to the electronic version of the deposit insurance brochure on FSRA's website.

In September 2022, the FSRA deposit insurance brochure and website disclosure was updated to include the express limitation of deposit insurance coverage to the assets of the DIRF to thereby incorporate the wording from the *Credit Unions and Caisses Populaires Act, 2020*. This change was communicated publicly and published to FSRA's website. We will continue to assess if additional disclosures are needed to strengthen credit union members and the public's understanding regarding limitations of the DIRF coverage.

pension benefit. Poor disclosure requirements mean that plan members are likely unaware that their benefit can be reduced if contributions and plan assets are insufficient. Further, the Pension Benefit Guarantee Fund (PBGF) was created to reduce the risk of pension plan members losing their pension benefits if the plan sponsor goes insolvent but the maximum PBGF guarantee is less than half of what it was when first implemented in 1980, when inflation is considered. It also guarantees a lower maximum amount of pension income (up to \$18,000 annually) than similar funds in the US and UK (over \$62,000 Cdn each annually).

Since FSRA took over as regulator of the pension plan sector from FSCO, it has reduced the number and changed the type of inspections it performs, resulting in the elimination of procedures to identify whether inaccurate information is submitted to the regulator. FSCO's inspections had identified this as a fairly common concern. As well, since its inception, FSRA has taken little action where pension plan providers have been over a year late in filing required documents that are critical for timely and informed oversight by FSRA.

We also noted that compared with pension regulators in other jurisdictions, FSRA's access to information and its ability to work with distressed plans (including those who do not have the necessary cash to meet required funding contributions) are limited. These issues are described in more detail below.

6.0 Detailed Audit Observations – Provincially Registered Pension Plans

6.1 Improvements Needed to Sector Oversight by FSRA

Certain multi-employer pension plans (MEPPs), a common type of pension plan for tradespeople, are significantly underfunded on a solvency basis, and FSRA (through persuasion of pension plan administrators) and the Ministry (through legislative changes) have not taken measures to reduce the risk that pension plan members may not receive their full (targeted)

6.1.1 FSRA and the Ministry Have Not Clearly Communicated the Risk to Members of Defined Benefit Multi-Employer Pension Plans That They May Not Receive Their Full Targeted Pension Benefits

Most MEPPs are defined benefit (DB) pension plans (95% of MEPP members belong to MEPP DB plans). As of June 30, 2022, MEPPs represented 73 (or 4%) of all DB pension plans in Ontario and about one million (or 25%) of all pension plan members. Examples of MEPP members include individuals who are part of trade unions, including Ontario members of the Laborers' International Union of North America and of the United Steelworkers.

These plans are fundamentally different from all other DB plans in that the expected benefit paid to employees may be reduced and is thus just a target as opposed to an obligation. Employers and members (usually represented by a union) agree upon the contribution rate into the plan. If the contributions and investment gains return more than is expected, pension benefits can under certain circumstances be increased above the initial targeted benefit. If, however, these contributions and investment gains are not enough to pay members their full benefits, the benefits paid to active workers and/or those who are already retired and collecting benefits can be (and regularly are) reduced to satisfy the funding requirements of the *Pension Benefits Act*. Doing so does not require agreement from plan members. Therefore, these MEPPs function more like defined contribution plans than DB plans, that is, the amount of pension income that the member receives upon retirement is primarily determined by the agreed-upon contributions and whatever investment income is earned.

A study completed by FSRA in 2019 showed that between 2014 and 2019, there were 55 instances of MEPP member benefit reductions. For example, in 2017, a pension plan permanently reduced the accrued benefit for all members who were not yet receiving a pension benefit by 20%–74%, depending on the member's age and years of service. Approximately 2,000 members were affected. In another example, in 2018, a plan reduced pension benefits by 5% for both active and retired members, which impacted approximately 2,100 members.

Change in Funding Rules May Negatively Impact Plan Members if an MEPP Is Wound Up

MEPPs also differ from other DB plans because, in 2007, the Ministry enacted new rules that enable certain MEPPs to become specified Ontario multi-employer pension plans (SOMEPPs), which are not required to meet solvency funding rules and instead need only to be funded on a going-concern basis. Solvency funding provides for the possibility of the plan being wound up at some point—for example, if the employer goes out of business—and ensures that in

such a situation the plan will have enough funds to pay its obligations to members. Going-concern funding assumes the plan will continue indefinitely and sets funding requirements needed for the plan to provide benefits to members and retirees based on reasonable actuarial assumptions. Of the 68 MEPPs in Ontario, 59 pensions covering 994,069 (or more than 97%) of the 1,020,404 MEPP members have elected to become SOMEPPs.

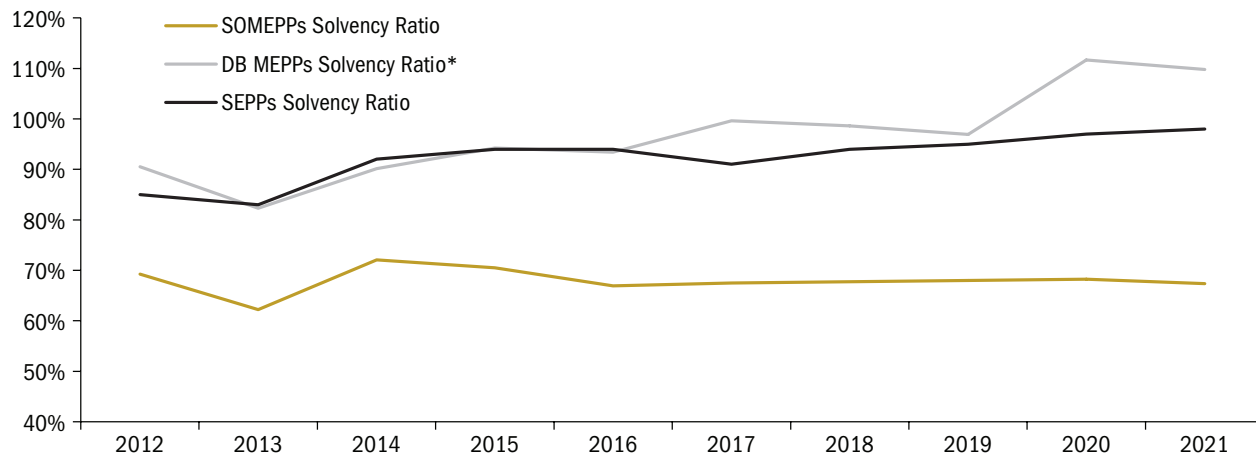
Prior to the new funding rules, in 2006, MEPPs had an average solvency ratio of 93% (meaning the plans had current assets available to cover 93% of benefits for retired members should the employers become insolvent). As of June 30, 2022, the MEPPs' average solvency ratio had dropped to 74%. **Figure 24** illustrates that during the 10 years leading up to January 2021, median solvency ratios for DB MEPPs and single-employer pension plans that remained subject to solvency funding rules improved, while the solvency ratios for the plans exempted from such rules (SOMEPPs) declined, placing their beneficiaries at increased financial risk. **Appendix 15** summarizes the solvency funding status of MEPPs as of June 30, 2022.

While it is less likely that a MEPP will be wound up due to insolvency compared to a single-employer pension plan, since this requires several sponsors to fail at once, when it has occurred the results have been devastating. Since 2003, there have been two instances of this as a result of industry downturns. In 2003, one of these pension plans was wound up and all pension plan members experienced a 47% reduction in targeted or actual benefits. In 2010, a second plan was wound up and pension plan members (those receiving a pension as well as those who had not yet retired) experienced a permanent 77% reduction in targeted or actual benefits. The rules exempting SOMEPPs from solvency funding have been continually extended and are expected to continue until January 1, 2024 or, if earlier, the first anniversary of the date a new target-benefit pension plan framework under the *Pension Benefits Act* comes into effect.

The Ministry informed us that the government enacted the 2007 rule as a result of requests from MEPP representatives, as well as in anticipation of

Figure 24: 10-Year Trend of Median Solvency Ratios for Specified Ontario Multi-Employer Pension Plans (SOMEPPs), Defined Benefit Multi-Employer Pension Plans (DB MEPPs) and Single-Employer Pension Plans (SEPPs), 2012–2021

Source of Information: Financial Services Regulatory Authority of Ontario



* DB MEPP Solvency Ratio refers to the solvency ratio for all DB MEPPs, except those that are SOMEPPs.

changes to MEPP-related legislation resulting from recommendations that were to be issued by an Expert Commission on Pensions that had been appointed by the Minister of Finance in 2006.

In 2008, the Expert Commission on Pensions released its report, “A Fine Balance” (the Report). The Report stated that continuing the exemption from solvency funding in some form past 2010 (the date the rule was due to expire) was compelling, though not without problems. Compared to funding on a solvency basis, funding only on a going-concern basis allows for a greater range of assumptions to be factored in, such as a greater range of expected returns on plan assets. In turn, this could result in a more optimistic target benefit pension income that is more difficult for the plan to achieve, which ultimately results in a pension plan member receiving a smaller pension income than was targeted. Going-concern funding also gives plans a much longer period of time (e.g., 12 years for SOMEPPs) than solvency rules allow (five years) to address and eliminate any underfunding of the plan.

The Report recommended, following consultation with Ontario’s MEPPs, that special legislation and regulations should be developed related to all aspects of funding, regulation and governance of MEPPs. However, since the Report, no legislative changes or regulations related to MEPPs have come into force, leaving the MEPPs at risk of more frequent

benefit reductions. The Ministry informed us that it has been working on developing policy changes since the Report was released, and that several pieces of legislation have been passed (between 2010 and 2020) which will provide the structure for a permanent target benefit framework. As well, two consultations were held in 2015 and 2018 on key elements of the framework to support implementation. However, these provisions remain unproclaimed and are currently not in force.

We noted the *2022 Ontario Budget* (Budget) specified that temporary SOMEPP rules will expire beginning in 2024, unless replaced by a permanent framework. We expect that a permanent target benefit framework would include updated funding rules; definitions of the types of sponsors that could offer target benefits (single or multi-employer plans, public or private sector plans, in a unionized or non-unionized environment); and required disclosures to MEPP members. The Budget identified that the government will consult with affected stakeholders on proposed regulations before implementing a permanent target benefit framework in 2023. We expect that a new, more aptly named, permanent target benefit MEPP framework will include some of the protective features required in other jurisdictions for such plans. For example, in British Columbia, target benefit pension plans are required to incorporate a Provision

for Adverse Deviation in their funding formula. This results in contributions to the pension plans being slightly more than is anticipated to meet the target pension benefit, which reduces the chances that the pension benefit will need to be decreased in the future. In New Brunswick, target benefit pension plans are mandated to follow risk management principles to help stabilize the targeted benefits that can be provided in the vast majority of economic scenarios. Specifically, target benefit plans are required to demonstrate a 97% likelihood based on a set of actuarial assumptions regarding future economic and demographic conditions that benefits they target to provide members will not need to be reduced in the next 20 years.

MEPP Best Practices Benchmarking Will Not Be Completed Before the Current Funding Rules Expire

Acknowledging the different risk profile of MEPPs compared with other DB plans, FSRA completed a review in 2020 to identify best practices for MEPPs, including those in the areas of governance, risk-management and communication strategies. For example, one best practice identified was that trustees should provide a plain language explanation of the potential for and likelihood of benefit adjustments to members. FSRA has begun to benchmark MEPPs against these best practices, but informed us that as this is a very labour-intensive process, it will not complete this effort until March 2024, which is after the current funding rules expire in January 2024.

Current Required Disclosures Do Not Make MEPP Members Aware of the Risk Their Pension Benefits May Be Reduced

Our audit found that current required disclosures to MEPP members do not clearly make them aware of the risk that their pension benefits could be reduced. MEPP administrators are required to indicate in member statements that pension benefits are not guaranteed by the PBGF and that benefits might be reduced if there are insufficient assets to meet the liabilities should the plan be wound up. However, FSRA (through persuasion of pension plan administrators) and the Ministry

(through legislative change) have not required disclosure regarding the far more usual occurrence that benefits can be reduced at any time to meet the funding requirements of the *Pension Benefits Act*, a gap that leaves members unaware of a risk they continually face.

RECOMMENDATION 13

To improve the benefit stability of multi-employer pension plans (MEPPs) and to increase awareness among members of how the funding status of their plans can impact their future pension benefits, we recommend the Financial Services Regulatory Authority of Ontario (FSRA) work with the Ministry of Finance to:

- assess MEPP best practices;
- complete the MEPP benchmarking exercise and act on any rule changes or other remedies deemed as needed;
- consider requiring member disclosures to include an explanation of how a plan's level of funding impacts pension benefits, and that benefits may be reduced at any time if needed to satisfy the level of funding required by the *Pension Benefits Act*.

RESPONSE FROM THE FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

FSRA appreciates the Auditor General's audit of our work to supervise defined benefit (DB) multi-employer pension plans (MEPPs).

FSRA committed to a multi-year benchmarking initiative through its Annual Business Plan as a next step to the MEPP guidance already released. The benchmarking exercise will identify how the practices outlined in the guidance are being adopted. This exercise will conclude with the release of a findings report toward the end of 2024.

FSRA's DB MEPP Leading Practice Guidance includes a specific best practice in terms of member communication regarding variability of benefits under their plan. FSRA will support the Ministry

with exploring new areas for the regulation of DB MEPPs, including member disclosures.

MINISTRY RESPONSE

The Ministry acknowledges this recommendation and will consider what best practices and member disclosures multi-employer pension plans should follow. The development of a permanent framework for target benefit pension plans has been and continues to be a key priority. Accordingly, the Ministry held substantial consultations on elements of a target benefit pension plan framework in 2015 and 2018.

As announced in the 2022 Budget, the government will consult with affected stakeholders on proposed regulations before implementing a permanent target benefit framework in 2023.

6.1.2 FSRA's More Limited Inspections of Pension Plans Did Not Look at Areas of Concern Previously Identified by FSCO

Since beginning operations on June 8, 2019, FSRA has not performed the same volume, and in certain cases, quality, of inspections of pension plans that its predecessor, the Financial Services Commission of Ontario (FSCO), conducted. In the six years prior to its dissolution on June 8, 2019, FSCO usually performed about 55 on-site inspections of pension plans annually. These inspections included interviews with staff and a review of documents to both verify information submitted to FSCO and to confirm the plan was complying with the *Pension Benefits Act*.

FSRA relies primarily on information provided by pension plan administrators to assess plan solvency and compliance with the *Pension Benefits Act*. If submitted information is inaccurate, FSRA's ability to assess and respond to at-risk plans can be severely impaired. From 2013 to 2016, FSCO identified inaccurate information reported by pension plans in 28% of the inspections it performed and identified a number of other areas of non-compliance, as shown in **Figure 25**. Verifying the accuracy of information in areas such as what

a pension plan sponsor actually contributed to the pension plan during a specific period is important for FSRA when it assesses a pension plan's funding risk, including when a more in-depth investigation may be warranted. Given the prior issues of inaccurate information being received that FSCO uncovered in its inspections of pension funds, there is ongoing value in FSRA continuing these types of inspections.

At the time of our audit, the only pension plans that were subject to in-depth reviews were plans on FSRA's monitored list. To be considered for this list, a plan must be covered by the Pension Benefits Guarantee Fund (PBGF). However, about 72% of pension plan members in Ontario are in plans not covered by the PBGF; these members could lose some of their pension benefits if their plan is not administered properly. Therefore, there can be value in FSRA performing inspections of non-PBGF-covered pension plans overall and in a more timely manner, especially when perceived risk to pension plan members is deemed high (for example, due to a pension plan having an overall low level of funding or missed contributions). In 2021/22, FSRA performed in-depth reviews of 18 pension plans. Instead of continuing the type of inspections performed by FSCO, FSRA has prioritized performing in-depth reviews of the plans on its actively monitored pension plan list and other activities, such as completing a review of multi-employer pension plans (see **Section 6.1.1**).

In September 2022, FSRA initiated a pilot project to determine when and how to conduct more fulsome inspections of pension plans. This inspection process is expected to consider performing inspections of all pension plans (not just those covered by the PBGF). As part of these inspections, FSRA plans to confirm that information submitted to it by a pension plan is accurate. At the time of the audit, FSRA had not determined how many such inspections it would do each year (broken down by category) or how many would be of PBGF-covered pension plans, and had not completed any such inspections. FSRA expects to finalize and implement its new examination process by March 2023.

Figure 25: Common Financial Services Commission of Ontario Pension Plan Inspection Findings, 2013–2016

Source of data: Financial Services Regulatory Authority of Ontario

Finding	Example	# of Plans Where Finding Occurred	% of Plans Examined Where Finding Occurred
Disclosure on members' benefits statements was missing.	Members' statements for terminated employees did not provide the time period for transfer options to be elected. This may result in a member, upon termination, missing the deadline to transfer the value of the pension benefit out of the plan.	122	60
The statement of investment policies and procedures (SIPP) was out of date.	The plan administrator is required to review and confirm or amend the SIPP at least once a year to reflect the latest investment-related information. The SIPP had not been updated for 19 years and did not address the defined-contribution component of the plan. The SIPP needs to meet legislative requirements for holding certain types of investments to ensure the plan takes on the appropriate level of risk to meet its investment needs. If the SIPP is not updated, it may not be in compliance with any regulatory changes made since its last update. As a result, a SIPP's investments could face a higher risk of providing lower returns or incurring losses that place members' benefits at risk.	69	34
Incorrect information was reported in statutory filings.	A large variance of \$9.5 million (22%) was found between contributions reported in audited financial statements and what was actually remitted into the account of the plan's trustee. Incorrect information directly impacts FSRA's ability to accurately assess and respond to the risks of the plan.	58	28
Member benefit statements were issued late.	Annual benefit statements for active members (identifying details of the pension plan's performance) are to be issued within six months of the year end. 2015 statements (due to be issued by June 30, 2016) had not been issued as of December 2016 (six months late at time of inspection). Member statements provide members with critical information to ensure they are saving enough to support them in retirement. Examples of such information include how much money or benefit is available, how investments are performing, and options for diversification to reduce risk.	58	28
The information booklet for plan members was out of date.	Plan booklets had not been updated for four to seven years to reflect current legislation and plan terms. Plan booklets are important to help members understand their available options, how their entitlement is affected in various situations, and how to best plan for retirement with enough income to support them. Out-of-date information means members may be misled on what current legislation and plan terms actually are.	44	21

RECOMMENDATION 14

To strengthen its knowledge that pension plans are compliant with the *Pension Benefits Act*, member benefits are protected and plans are being well-administered, we recommend that the Financial Services Regulatory Authority of Ontario:

- complete its pilot project to set up an inspection framework for pension plans; and
- finalize and implement new inspection guidelines and an inspection process (including staffing considerations) that incorporates a process for plan selection (including both defined benefit and defined contribution plans); verification of data in regulatory filings; and identification of insufficient member communications, governance and compliance issues, and any other relevant risk factors learned through the pilot project for inspections of pension plans.

RESPONSE FROM THE FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

FSRA appreciates the Auditor General's recognition of the importance of good plan administration.

As the Auditor General acknowledged, FSRA has taken a different approach to supervision than FSCO, reflecting its creation as a modern principles-based regulator focused on the outcomes of protecting beneficiaries' rights and entitlements and promoting good plan administration. Our new supervisory approach considers the unique aspects of each plan type under supervision. FSRA is supplementing its risk-based approach with a revamped plan examination framework. This will build on its risk-based, outcomes-focused supervisory approaches and engagements with plan administrators to protect benefits rights and ensure good administration of plans as evidenced since launch and throughout the COVID-19 pandemic.

FSRA expects to complete its pilot project on plan examinations by the end of 2023. As the Auditor General recommends, on completion of its pilot, FSRA will evaluate its outcomes, make

adjustments and implement its final examination process by winter 2024, with consideration for the Auditor General's recommendation of a process for plan selection; verification of data in regulatory filings; and identification of insufficient member communications, governance and compliance issues, and any other relevant risk factors learned through the pilot project for inspections of pension plans.

6.1.3 FSRA Has Taken Limited Action When Pension Plans Are Late Submitting Required Information

FSRA's supervision of pension plans is reliant on the information that pension plans are required to submit. If this information is submitted late or not submitted at all, FSRA does not have the ability to conduct a timely and/or accurate assessment of a pension plan's risks, and it may be unable to initiate a timely investigation of the pension plan when warranted.

FSRA has authority under the *Pension Benefits Act* to take enforcement actions—ranging from issuing compliance orders to levying administrative monetary penalties—to enforce pension plans' compliance with regulatory obligations. Between June 8, 2019 (FSRA's start of operations) and June 30, 2022, FSRA undertook a limited number of enforcement actions against pension plans (17 warning letters and five compliance orders).

Regulatory obligations of pension plans include submitting accurate information to FSRA by pre-identified dates. However, FSRA's information system for these plans' submissions does not automatically notify FSRA staff when a required document is not submitted on time, nor does it send a letter notifying the pension plan's administrator that they have missed a deadline. As of June 30, 2022, FSRA had never levied an administrative monetary penalty when a pension plan's filings were late. FSRA has the power to impose penalty amounts at \$100 or \$200 per day if a filing is late up to a maximum of \$25,000 per offence for corporate plan administrators.

Had FSRA been levying those penalties from its start of operations in 2019 to June 30, 2022, we calculate the value of the unenforced penalties (on active plans as of June 30, 2022) to be over \$47 million based on about 1,500 plans not filing about 3,120 documents on time. A total of 988 (66%) of the plans that did not file documents on time were defined contribution pension plans and 516 (34%) were defined benefit plans. Since August 3, 2021, FSRA has been able to retain money from administrative monetary penalties that can be used for research and education purposes (such as improving MEPP members' understanding of the risks to their pension benefits as discussed in **Section 6.1.1**). Prior to that, money collected from AMPs would have been added to the Province's consolidated revenue fund. Had FSRA elected to implement administrative monetary penalties, that total could conceivably have been substantially lower since many administrators would have likely filed the required information after

receiving a warning from FSRA. However, the key point is that had FSRA taken action, it would have collected more timely information for its assessments. As shown in **Figure 26**, among active plans, about 72% (2,290) of all late filings since FSRA's inception were more than 30 days late, and 23% (743) of those late filings were more than one year overdue.

RECOMMENDATION 15

For the timely collection of accurate and complete information required from pension plans to effectively regulate the sector and protect pension plan members, we recommend that the Financial Services Regulatory Authority of Ontario (FSRA):

- update its technological capabilities to facilitate automatic identification and notification to its own staff and to pension plan administrators of missed reporting deadlines;

Figure 26: Aging of Required Pension Plan Filings

Source of data: Financial Services Regulatory Authority of Ontario

	June 8, 2019 to March 31, 2020		April 1, 2020 to March 31, 2021		April 1, 2021 to March 31, 2022	
	Pension Plans (#) ¹	Filings (#)	Pension Plans (#) ¹	Filings (#)	Pension Plans (#) ¹	Filings (#)
1-30 days late	244	335	175	216	256	334
31-60 days late	60	72	56	63	83	104
61-90 days late	108	127	41	48	43	50
91-365 days late	152	206	274	388	363	488
>1 year late ²	140	216	242	360	98	167
Total late (#)³	658	956	726	1,075	771	1,143
Total late (%)	16%	8%	17%	9%	18%	10%
Total on time (#)¹	3,463	10,744	3,526	10,899	3,509	10,592
Total on time (%)	84%	92%	83%	91%	82%	90%

1. Pension plans were considered to have been filed on time if all of their required filings within the time period were received on or before the applicable due dates.
2. Some of these filings were eventually filed, while others still have not been filed as of June 30, 2022. This includes 47 plans not having submitted 81 filings that were due between June 8, 2019 to March 31, 2020; 110 pension plans not having submitted 181 filings that were due between April 1, 2020 to March 31, 2021; and 93 pension plans not having submitted 160 filings due between April 1, 2021 to March 31, 2022.
3. The total number of pension plans does not match the sum of the number of pension plans for each late time period. This is because some plans had multiple late filings and were included in multiple categories, but for the total were only included once. For all late filings due between June 8, 2019 to March 31, 2022, 885 filings (28%) were between 1-30 days late, 1,546 filings (49%) were between 31-365 days late, and 743 filings (23%) were more than one year late. Therefore, in total, 72% (2,289) of all late filings were more than 30 days overdue.

- develop a plan to improve pension plan administrators' compliance with information submission deadlines;
- develop and implement guidelines for FSRA staff on when to initiate enforcement actions against pension plan administrators who miss key information reporting deadlines; and
- as required by the to be implemented guidelines, consistently issue warning letters, compliance orders and levy penalties.

RESPONSE FROM THE FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

FSRA acknowledges the need to improve its technology and increase automation, where appropriate. Going forward, FSRA's multi-sectoral IT refresh project should enhance our ability to automate identification and notification of late filings. The benefits of the IT refresh project in the pension sector are expected to be realized by 2024.

With the onset of the pandemic, FSRA paused its filing compliance processes, including the use of administrative monetary penalties. Those processes have since resumed. FSRA has also enhanced its processes to include direct engagements of pension plans that submit filings to FSRA more than one month late. To date, FSRA has identified and commenced work engaging approximately 250 defined contribution pension plans who had missed reporting deadlines. These engagements are aimed at educating the sector where required, enhancing FSRA's understanding of issues that resulted in reporting deadlines being missed and ensuring future compliance with information submission deadlines.

FSRA acknowledges the Auditor General's recommendation that FSRA should develop and implement guidelines on enforcement actions (e.g., warning letters, compliance orders, monetary penalties) for delinquent plan administrators. FSRA will review its processes with a view to strengthening our sanction-related processes.

6.1.4 FSRA Has Insufficient Powers to More Effectively Regulate Pension Plans and Protect Plan Members

FSRA uses a Risk-Based Supervisory Framework approach in regulating single-employer pension plans, meaning it spends the most time monitoring and engaging with plans perceived as having the greatest risk of failure. This approach is appropriate and relies heavily on FSRA's ability to accurately assess the level of risk faced by each pension plan. To best assess this risk, FSRA needs to not only consider the pension plan itself but also assess the pension plan sponsor and the sponsor's ability to make the necessary contributions into the plan. However, while FSRA is able to access information on the pension plans it regulates, information related to plan sponsors is limited, generally to whatever information is made publicly available.

We noted instances where FSRA lacked powers to be able to fully assess the risk facing a pension plan compared to other regulators in other jurisdictions. For example, pension plan sponsors are not currently required to inform FSRA of events that could be detrimental to beneficiaries and the pension insurance system (for example, the sponsor defaulting on a loan). Section 98.1 of the *Pension Benefits Act*, which was passed into legislation on May 8, 2018, has not yet been proclaimed, and therefore is not in force. Proclaiming this section would enable FSRA to receive more fulsome information and require that such events be disclosed. We noted other areas where FSRA lacks power. For example, FSRA does not have the authority to work with plan sponsors on establishing payment plans to best support the pension plan and protect members. See **Appendix 16** for a comparison of powers between FSRA and other pension regulators.

RECOMMENDATION 16

To strengthen the Financial Services Regulatory Authority of Ontario's (FSRA) oversight of pension plans for the benefit of Ontario pension plan members, we recommend that the Ministry of Finance work with FSRA to address FSRA's desire to:

- have the unproclaimed amendment (s.98.1 Duty to Notify re Disclosable Event) of the *Pension Benefit Act* proclaimed so that it would require certain events to be disclosed to FSRA and allow for the negotiation of financial protections related to such events;
- have greater access to plan sponsor information, in line with the Canadian federal pension regulator and the Pension Benefit Guarantee Corporation in the US, and develop a proposal for FSRA to gain such access; and
- have the authority to work with plan sponsors on payment plans without requiring legislative or regulatory changes.

RESPONSE FROM THE FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

FSRA appreciates the Auditor General's understanding that FSRA may benefit from more tools to protect the rights and entitlements of plan beneficiaries. FSRA is ready to support the government's consideration of these issues and is working to actively supervise plans where there may be heightened concern over the security of the plans' benefits.

MINISTRY RESPONSE

The Ministry acknowledges this recommendation and will take it into consideration. The government passed legislation to provide authority related to disclosable events, and regulations would be necessary for the implementation of this authority. The regulations would be informed by evidence-based policy analysis and public consultations.

Regarding potential additional authorities for FSRA, the Ministry will work with FSRA to assess the evidence-informed basis for FSRA's proposal to have additional authority.

6.1.5 The Pension Benefit Guarantee Fund Requires Ongoing Assessment to Confirm That It Contains and Has Access to Sufficient Funds to Protect Pension Plan Members and the Province

The Pension Benefit Guarantee Fund (PBGF) exists to provide protection (subject to specific maximums and exclusions) to Ontario members and beneficiaries of certain defined benefit single-employer pension plans in the event the sponsor becomes insolvent. However, we found that the PBGF only protects members up to a maximum of \$1,500 per month per pension plan member.

PBGF Has at Times Not Been Able to Cover Claims Without Additional Provincial Funding

As shown in **Figure 13**, since 2017, the cumulative deficit of PBGF covered plans (for pension plans in a deficit position) has been decreasing from about \$15.9 billion to \$7.1 billion, based on the most recently filed information as of December 31, 2021. As of June 30, 2022, the cumulative deficit of PBGF-covered plans (for pension plans in a deficit position) was \$5.1 billion. In the unlikely event that all these plans go insolvent at the same time, the PBGF currently has insufficient funds (about \$1 billion) to cover the financial impact to pension plan members' pension benefits.

FSRA performed an assessment of the PBGF's ability to fund various plausible economic scenarios, including those that would result in pension plans going insolvent and claims being made against the PBGF, as at June 30, 2022. Overall, this determined that the PBGF would likely remain solvent. For example, the worst economic event considered (an event similar to the financial crisis in 2008/09) was deemed to require the PBGF to pay out \$400 million in the first year after the event was to occur. However, this was a point-in-time assessment and would change if economic conditions worsened. While FSRA has established a funding target for the Deposit Insurance Reserve Fund that serves as

insurance to protect credit union depositors' eligible deposits from loss in the event of a credit union's insolvency (see **Section 5.1.3**), FSRA has not determined a similar funding target for the PBGF to allow it to effectively monitor and assess the funding of the PBGF over time.

Under the *Pension Benefits Act*, the PBGF's liability to pay claims related to insolvent pension plans is limited to the assets of the fund. The Lieutenant Governor in Council may, at its discretion, authorize the Minister of Finance to make a grant or a loan to the PBGF to help meet any shortfall. Historically, when the PBGF has been unable to cover claims, the Province has provided the necessary funding (see **Figure 27**). Due to the risk of exposure to the Province (if, similar to what has been done in the past, it provides a loan or grant to the PBGF to help meet a shortfall), it is important that FSRA continues to monitor the PBGF and considers changes to how the PBGF is funded so it holds sufficient funds that may be needed to pay potential claims.

Past Recommendations for a Separate Administrator of the PBGF Were Not Followed

FSRA is the regulator of pension plans and its CEO is the administrator of the PBGF. There is an apparent conflict of interest if the pension regulator and administrator of the pension insurance fund are the same entity (or that entity's CEO). If the pension insurer and regulator are related to the same entity, then it may

focus their regulatory activities excessively on items related to maintaining the longevity of the pension insurance fund, without considering risks to pension plan members not covered by the fund. As discussed in **Section 6.1.2**, the only plans currently eligible to be considered for inclusion on FSRA's actively monitored pension plan list (and therefore subject to regular inspections) are those covered by the PBGF. If the regulator of provincially registered pension plans was separate from the administrator of the PBGF, it may have historically inspected pension plans not covered by the PBGF on a more regular and routine basis.

Past reports to the previous government have identified that the PBGF should be administered by a separate entity. For example:

- The 2008 Ontario Expert Commission on Pensions (appointed by the Ontario government to identify improvements to the pension system in Ontario) recommended that a separate agency be established to operate the PBGF.
- The 2016 Ministry of Finance Mandate Review (which guided the creation of FSRA) strongly urged the government to explore new options for administering the PBGF, concluding: "The [PBGF] should not be administered or overseen by FSRA."

The Ministry has argued that the PBGF is administered by the CEO of FSRA, not FSRA as an organization,

Figure 27: Ontario Government Financial Support for the Pension Benefits Guarantee Fund (\$ million)

Source of data: Financial Services Regulatory Authority of Ontario

Year of Payment	Amount	Type of Support (loan/grant)	Purpose
1990	25	Loan	To pay claims from Massey Combines Corporation pension plan
2004	330	Loan	To pay claims from Algoma Steel pension plan
2009	30	Loan	To pay claims to various claimants
2010	100	Loan	To pay claims for which the superintendent had appointed an administrator
2010	500	Grant	To enable the repayment of the 2009 and 2010 loans and to place the PBGF on more sustainable financial footing*
Total	985		

* While the \$500 million grant was not earmarked for Nortel at the time, on May 31, 2011, two claims totaling \$384 million were paid to Nortel pension funds.

and that the duties of the CEO are distinct from those of FSRA under the FSRA Act. It indicated that while the Minister of Finance had the authority to appoint and/or remove the Superintendent of Financial Services, it does not have the power to remove the CEO of FSRA, who owes fiduciary duties to all current and future beneficiaries of the PBGF. However, the 2016 Ministry of Finance Mandate Review recommended the separation of the PBGF from the then-regulator FSCO at a time when, comparably, the Superintendent (not FSCO itself) was also responsible for the administration of the PBGF. This is consistent with the way it works now. When FSRA was created, “Superintendent” was replaced with “CEO” in the legislation. One distinction between FSRA and FSCO is that the FSCO Superintendent reported to the Minister of Finance while the FSRA CEO reports to a Lieutenant-Governor-in-Council-appointed Board of Directors. Otherwise, it appears nothing else has changed.

PBGF Coverage of Pension Plan Members’ Benefits Is Insufficient Compared with the Fund’s Initial Coverage and That of Jurisdictions Outside of Canada

Given the name of the Pension Benefits Guarantee Fund (PBGF), members might expect that the fund guarantees their pension benefits. But in reality, the PBGF only acts to cover any shortfall in a member’s pension benefit up to \$1,500 a month; any additional benefit owed to the member by a pension plan will be limited by how well-funded the plan is. For example, if a plan is only 50% funded, members would only get 50% of their pension benefit over \$1,500 a month.

While no other province or territory has a similar fund to the PBGF, a plan member in the US or UK is far more likely to receive a full pension because the insured amounts in those jurisdictions are significantly higher. As of June 30, 2022, while Ontario guarantees up to \$18,000 annually, the UK guarantees full pension coverage, and the US guarantees about \$62,300 Cdn a year at age 60 and almost \$96,000 Cdn a year at age 65.

Since its inception in 1980 until June 30, 2022, PBGF coverage has increased only once, from \$1,000 to

\$1,500 per month. To have kept up with inflation, the amount would have needed to increase to \$3,447, more than double the current amount.

As the PBGF was seen as presenting large financial risks to the Province in the event of an economic downturn (which could result in similar loans or grants as identified in **Figure 27**), the 2012 Commission on the Reform of Ontario’s Public Services recommended that “the province either terminate the [PBGF] or explore the possibility of transferring it to a private insurer.” As the PBGF is a useful protection for pension plan members in the case their employer goes insolvent, it is worth considering how the PBGF can be reformed to provide greater protection to plan members while improving its sustainability going forward.

RECOMMENDATION 17

To balance the needs of pension plan sponsors, the needs of members, and the financial risks to the Pension Benefits Guarantee Fund (PBGF) and the Province, we recommend the Financial Services Regulatory Authority of Ontario (FSRA), working with the Ministry of Finance:

- establish a funding target for the PBGF and assess the PBGF’s actual funds against this target regularly (at least annually);
- identify and implement mitigating actions that should be taken when the fund is assessed as not being adequate to cover the estimated amount of future claims under normal conditions;
- assess whether the PBGF’s oversight and operating structure is effective for the PBGF to remain financially sustainable and to meet the needs of pension plan members (to receive a suitable level of coverage);
- assess whether coverage of the fund should be increased to match comparable funds, like those in the United Kingdom and the United States; and
- based on the results of the assessments, implement an updated framework to better protect pension beneficiaries.

RESPONSE FROM THE FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

FSRA thanks the Auditor General for their audit and recommendations to improve the sustainability of the PBGF. The CEO is the Administrator of the Fund, and as required under the *Financial Services Regulatory Authority of Ontario Act, 2016*, the FSRA Board established a Pension Benefits Guarantee Fund Advisory Committee.

FSRA is continuing to enhance its assessment of PBGF adequacy to be better informed about the range of possibilities. This work also supports the government's determination of PBGF assessments and benefits. FSRA will consider establishing a target for the PBGF adequacy level and assess the actual funds against the established level regularly. FSRA will consider what mitigating actions should be taken when the fund is believed to no longer be adequate to cover the estimated amount of future claims under normal conditions.

In addition to improving its modelling capacity, FSRA has taken steps to optimize the PBGF investment returns given the long-term nature of obligations including going to market to select a new investment fund manager to implement this return-enhancing strategy.

To improve transparency in the funded status of the PBGF, FSRA has committed in its Annual Business Plan to publicly deliver a report on the PBGF. Subject to stakeholder input and the completion of work to assess PBGF adequacy, FSRA aims to publish the first report in late 2023/24.

MINISTRY RESPONSE

The Ministry acknowledges this recommendation and will take it into consideration as part of future reviews of the PBGF.

The PBGF plays an important role in Ontario's pension system by providing the security of a guaranteed maximum monthly pension benefit for plan beneficiaries. It is the only fund of its kind in Canada.

The Ministry's 2020/21 review of the PBGF identified a need for data to better estimate the fund's exposure to future claims and the appropriate level of funding by employer sponsors. This data collection is underway and will support evidence-based policy development going forward.

7.0 Detailed Audit Observations – FSRA Reporting on Performance

7.1 Useful Performance Measures to Evaluate FSRA's Performance as a Regulator Are Lacking

FSRA does not sufficiently track and report on its performance to better help the public assess how effectively it is achieving its mandate in regulating the private passenger automobile insurance, credit union and provincially registered pension plan sectors (as identified in **Section 2.3**).

FSRA publicly reports on its performance, on a quarterly and annual basis, against 22 service standards in total (with separate standards existing for each sector it regulates) including nine service standards specifically for the three sectors we audited, namely:

- For the automobile insurance sector, FSRA tracks the percentage of rate filings reviewed and decisions made within 45 business days for major filings and 25 business days for minor filings, and the percentage of underwriting rules, endorsement and form filings reviewed and decisions made within 30 business days.
- For the credit union sector, FSRA tracks regulatory applications processed within 30 business days of receipt of required information, phone/email inquiries acknowledged or responded to within one business day, and inspection reports provided no later than 60 business days after the inspection.
- For the pension plan sector, FSRA tracks the percentage of pension plan wind-up applications

processed within 90 business days for defined contribution plans and 120 business days for defined benefit plans, and the percentage of inquiries responded to within 45 business days.

FSRA reporting on the timeliness of services it provides to stakeholders and consumers is useful, but this information is not sufficient to help members of the legislature or the public assess how effectively FSRA is performing at achieving its overall mandate.

We noted that certain performance measures would be useful for FSRA to report on across all regulated industries and other measures that may be sector-specific. For example, across all regulated sectors, FSRA could report on the target and actual number of inspections performed of regulated entities, the percentage of those entities that implemented all inspection recommendations within a specified time period, and the percentage of entities who missed a regulatory filing deadline that were followed up on and submitted the filing within a specified time period.

Sector-specific measures for the credit union sector (such as the target and actual funding status of the DIRF, as discussed in **Section 5.1.3**) are generally useful to the public. Other sector-specific measures that FSRA could report on for other sectors include:

- Within the private passenger automobile sector, FSRA could establish targets for how much automobile insurance premiums should increase each year as well as targets and measures for how effectively insurers are combatting fraud (in relation to the fraud reporting service it asked the Ministry for approval to implement, as discussed in **Section 4.1.2**).
- Within the pension plan sector, FSRA could establish a target to evaluate the adequacy of PBGF funding against (discussed in **Section 6.1.5**) and publicly report performance against this target.

We noted that British Columbia publicly reports useful performance measures for its automobile insurance sector, including a jurisdictional comparison of year-over-year rate changes (with a target of rate change being at or below the jurisdictional average),

the percentage of claims costs that go to customers (with targets established), and customer service measures including on-time delivery of digital capabilities to provide customers with digital options to purchase and renew their automobile insurance. In Alberta, the automobile insurance regulator publicly reports on the weighted average percentage change in private passenger vehicle insurance premiums, and has set targets to monitor against such as the weighted average percentage being below the province's consumer price index.

RECOMMENDATION 18

To enable members of the legislature and the public to fully assess the effectiveness of the Financial Services Regulatory Authority of Ontario (FSRA) in meeting its mandate, we recommend that FSRA:

- develop and track informative specific performance measures and targets for the private passenger automobile insurance, credit union and provincially registered pension plan sectors that better align with its overall mandate; and
- report on progress against these targets (including the reason the target for any performance measure was missed) on an annual basis.

RESPONSE FROM THE FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

FSRA welcomes the recommendation to review the performance measures/targets across our various lines of business.

We will consider the performance measures identified by the Auditor General and have initiated work within FSRA to begin a review of our service standards/performance measures—through this, we will endeavour to enhance our metrics that were initially developed in 2020, and our reporting on these metrics, including continuing to publicly report through various channels. We will finalize the performance measures we report on after consultation with stakeholders in each sector.

Appendix 1: Glossary of Terms

Prepared by the Office of the Auditor General of Ontario

Term	Description
Administrative monetary penalty (AMP)	A financial deterrent or penalty imposed by a regulatory organization for non-compliance with legislation and related regulations.
Co-operative corporation	An entity that carries on their business on a co-operative basis (i.e., members contribute to the decision-making of the business and share surplus revenue). FSRA's oversight of these entities is limited to reviewing and approving offering statements to ensure they comply with the <i>Co-operative Corporations Act</i> .
Credit union	A provider of financial services primarily for its members on a co-operative basis. Credit unions offer similar services to banks (such as deposit taking), investments (such as Guaranteed Investment Certificates) and loans. However, banks are allowed to operate federally with any customer, while credit unions register to operate provincially and only serve credit union members.
Defined benefit pension plan	A pension plan that provides members with a pre-determined pension income when they retire. The formula used to determine a member's retirement income usually involves factors such as number of years of membership in or contribution to the plan and the member's average income, and is not dependent on the investment returns of the plan fund.
Defined contribution pension plan	A pension plan where the employer (and possibly the employee) contribute a set or defined amount. The amount of pension income that the member receives upon retirement is determined by the contributions accumulated and investment income earned (less administrative costs).
Deposit Insurance Corporation of Ontario (DICO)	The prudential regulator for credit unions from 1994 to June 7, 2019, it also functioned as the deposit insurer for credit unions and caisses populaires prior to the establishment of the Financial Services Regulatory Authority of Ontario (FSRA).
Financial Services Commission of Ontario (FSCO)	An agency established under the <i>Financial Services Commission of Ontario Act, 1997</i> (FSCO Act) with a legislative mandate to regulate pension plans, the insurance industry, mortgage brokers, credit unions and caisses populaires, loan and trust companies, co-operative corporations, and service providers that invoice auto-insurers for statutory accident benefits claims. Certain FSCO operations, activities, affairs, assets, liabilities, rights and obligations were transferred to FSRA via a Minister's Transfer Order.
Financial Services Tribunal (FST)	A tribunal established in 1997 by the FSCO Act to provide dispute-resolution services and enforce the provisions of the FSCO Act. It was originally structured within FSCO's organization, with a common Chair and Vice-Chair. It has operated independently of FSRA since April 2019.
Individual pension plan	A pension plan that contains a defined benefit provision and has three or fewer plan members, where at least one of them is related (within the meaning of the <i>Income Tax Act</i>) to a participating employer in the plan.
Insurance agent	An individual licensed and overseen by FSRA, who is able to sell insurance policies for one particular insurance company as an employed member of that company.
Insurance broker	An individual overseen by the Registered Insurance Brokers of Ontario (RIBO), who works independently and is therefore able to offer policies and plans from different insurance companies to customers.
Jointly sponsored pension plan (JSPP)	A pension plan in which decision making and funding of the benefits is shared jointly by both employees and their employer(s). A JSPP provides defined benefits to plan members and contributions are always made by both plan members and their employers.

Term	Description
Licence Appeal Tribunal (LAT)	An independent body that reports to the Ministry of the Attorney General. It adjudicates applications and resolves disputes concerning compensation claims and licensing activities regulated by the provincial government. The LAT receives about 1,300 applications for disputes every month. Over 15,500 cases were brought forward at the LAT at the end of the 2021/22 fiscal year. The LAT's total expenditures in 2021/22, which consisted mainly of salaries and benefits, were nearly \$14.5 million. The LAT operates under a cost-recovery model, whereby insurers reimburse the tribunal based on their usage of it.
Loan and trust company	A company that offers loans and trust services, including the administration or execution of a trust (assets of an individual overseen by a third party for the eventual distribution to beneficiaries).
Mortgage administrator	A business licensed by FSRA to receive mortgage payments from borrowers and send them to lenders. Mortgage administrators are hired by lenders to monitor the agreements and take steps on the lenders' behalf to enforce mortgage payments.
Mortgage agent	An individual licensed by FSRA to carry out mortgage activities for a licensed mortgage brokerage, under the supervision of a licensed mortgage broker.
Mortgage broker	An individual licensed by FSRA to carry out mortgage activities for a licensed mortgage brokerage. A mortgage broker may also be responsible for supervising several mortgage agents at the same brokerage.
Mortgage brokerage	A business licensed by FSRA to carry out mortgage activities, such as arranging mortgages for Ontarians. A mortgage brokerage usually employs several mortgage brokers and agents who work directly with clients.
Multi-employer pension plan (MEPP)	A pension plan in which two or more unrelated employers participate and contribute to the same plan. Often, MEPPs are sponsored by the union that represents the employees of unrelated employers in a specific industry. It can be a defined benefit plan or defined contribution plan, or a combination of both types of plans.
Principal mortgage broker	An individual whose role is to be the chief compliance officer for their mortgage brokerage. Under the <i>Mortgage Brokerages, Lenders and Administrators Act, 2006</i> , each mortgage brokerage must appoint one Principal Broker.
Single-employer pension plan (SEPP)	A pension plan sponsored by a single employer or a group of related employers within a corporate group.

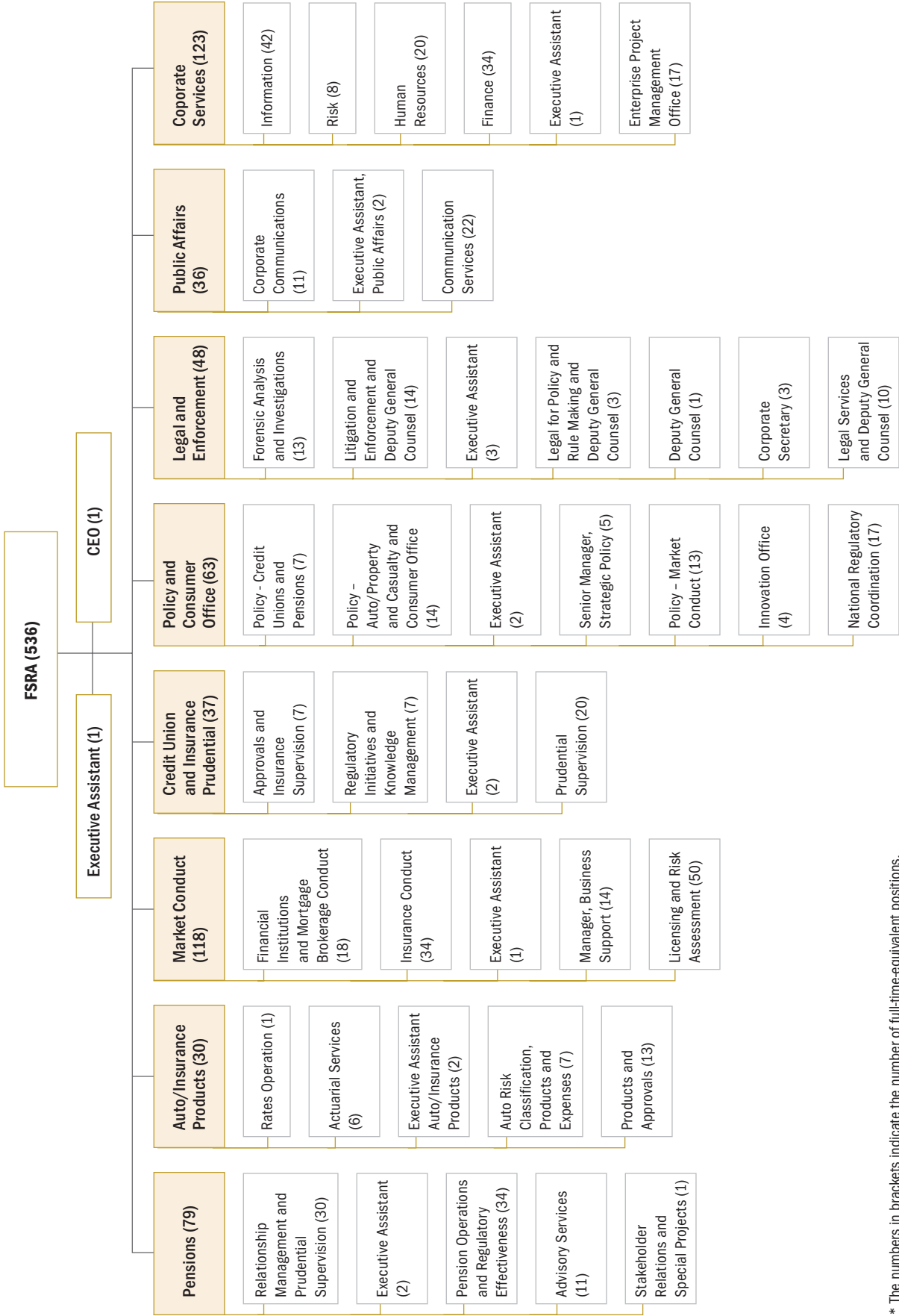
Appendix 2: Timeline of Events Preceding the Creation of FSRA

Source of data: Financial Services Regulatory Authority of Ontario

Year	Event
1977	The Deposit Insurance Corporation of Ontario (DICO) is established as the Ontario Share and Deposit Insurance Corporation under the <i>Credit Unions and Caisses Populaires Act, 1976</i> .
1994	DICO becomes the prudential regulator for credit unions, meaning it is tasked with ensuring these financial firms minimize risk in their operations and hold adequate capital to protect their financial health in the event of unexpected circumstances. DICO also functions as the deposit insurer for credit unions.
1997	The Financial Services Commission of Ontario (FSCO) is established under the <i>Financial Services Commission of Ontario Act, 1997</i> (FSCO Act) to regulate pension plans, the insurance industry, mortgage brokers, credit unions, loan and trust companies, co-operative corporations, and service providers that invoice auto-insurers for statutory accident benefits claims. The FSCO Act also establishes the Financial Services Tribunal (FST) to provide dispute-resolution services and enforce the provisions of the FSCO Act. The FST is structured within FSCO's organization with a common Chair and Vice-Chair.
2015	The Ministry appoints an Expert Advisory Panel (Panel) to conduct a review of the mandate of DICO, FSCO and the FST to make recommendations on creating a more flexible and modern regulator for the Province's financial services and pension plan sectors. Through stakeholder consultations and submissions, the Panel identifies significant inefficiencies and the opportunity for transformation and modernization. The Panel also notes that the current regulatory framework and structure are not flexible or responsive enough to offer a high level of service and protection to consumers, investors and pension plan beneficiaries.
2016	The Panel's final report recommends replacing FSCO with a new modern regulator, which would also take over DICO's oversight functions, and establishing FST as an independent tribunal separate from the regulator. The government introduces the <i>Financial Services Regulatory Authority of Ontario Act, 2016</i> (FSRA Act).
2017	The FSRA Act is proclaimed in force on June 29. The Financial Services Regulatory Authority of Ontario (FSRA) is established by the Legislature under statute as a Crown agency pursuant to the provisions of the FSRA Act.
2019	The FST becomes an independent tribunal on April 1. FSCO and DICO end their activities on June 7. FSRA replaces FSCO and DICO as an integrated and self-funded regulator for the non-securities financial services and pension plan sectors in Ontario on June 8.

Appendix 3: FSRA Organizational Chart, as of June 30, 2022*

Source of data: Financial Services Regulatory Authority of Ontario



* The numbers in brackets indicate the number of full-time-equivalent positions.

Appendix 4: FSRA's Advisory Committees, Active as of June 30, 2022

Source of data: Financial Services Regulatory Authority of Ontario

Advisory Committee	Responsibilities
Property and Casualty Insurance	
Stakeholder Advisory Committee on Property and Casualty Insurance	Provides feedback to the Board of Directors on FSRA's insurance-related priorities and other industry issues
Technical Advisory Committee for Auto Insurance Rate Regulation	Provides expert advice on proposed changes to rating and underwriting regulation, including legal requirements and FSRA rule-making
Technical Advisory Committee for Auto Data and Analytics Strategy	Provides expert advice on the consumer impacts and regulator implications of the use of artificial intelligence and big data analytics in the automobile insurance sector
Technical Advisory Committee for Automobile Insurance Products	Helps identify problems with automobile insurance products and proposes potential solutions for the benefit of consumers
Credit Unions	
Stakeholder Advisory Committee for Credit Unions	Provides feedback to the Board on credit union-related priorities and other industry issues
Technical Advisory Committee for Credit Union Data Strategy and Digital Transformation	Provides advice on data collection, retention and sharing between the credit union system and FSRA
Advisory Committee for Credit Union Regulatory and Supervisory Initiatives	Provides expert insight and advice to FSRA on key credit union sector initiatives and advice to inform FSRA on regulatory initiatives, such as guidance and rules. This is a permanent committee.
Technical Advisory Committee for Deposit Insurance Reserve Fund (DIRF)	Provides expert insights to FSRA on its approach to the DIRF, which pays deposit insurance claims in the event of a credit union insolvency. Also provides advice on initiatives such as the DIRF Adequacy Assessment Framework, Differential Premium Score and other key projects. This is a permanent committee.
Technical Advisory Committee for Insurance Prudential Regulation and Supervision	Advises FSRA on key sector and regulatory initiatives, such as the Insurance Prudential Supervisory Framework (IPSF) and development of supervisory approaches
Health-Care Service Providers	
Stakeholder Advisory Committee for Health Service Providers	Provides feedback to the Board on insurance-related (health service provider) priorities and any other industry issues
Life and Health Insurance	
Stakeholder Advisory Committee for Life and Health Insurance	Provides feedback to the Board life and health insurance-related priorities and other industry issues
Technical Advisory Committee for Insurer Oversight of Managing General Agencies (MGAs)	Provides technical input and expert advice to FSRA from an industry perspective regarding trends and issues related to MGAs (entities that can perform the activities of both insurance companies and insurance brokers on behalf of other insurance companies)
Technical Advisory Committee for Segregated Funds	Provides input and expert advice from an industry perspective on trends and issues related to segregated funds (investments similar to a mutual fund that provide some form of protection/insurance)

Advisory Committee	Responsibilities
Mortgage Brokering	
Stakeholder Advisory Committee for Mortgage Brokering	Provides feedback to the Board on the progress made by FSRA on its mortgage brokering-related priorities and other industry issues
Technical Advisory Committee for Mortgage Brokering	Exchanges information and views about the mortgage and real estate markets, including innovation in the industry, with FSRA and the public. This is a permanent committee.
Pension Plans	
Stakeholder Advisory Committee for Pensions	Provides feedback to the Board on pension-related priorities and other industry issues
Retiree Advisory Panel	Provides external input and personal experience from the perspective of retirees
Defined Benefit Single Employer Plans Advisory Committee	Provides advice on technical issues and proposed legislation and regulations, as well as on FSRA guidance and communication initiatives, related to defined-benefit single-employer plans
Defined Contribution Plans Committee	Provides advice on technical issues and proposed legislation and regulations, as well as on FSRA guidance and communication initiatives, related to defined-contribution plans
Multi-Employer Pension Plans (MEPPs) Advisory Committee	Provides advice on technical issues and proposed legislation and regulations, as well as on FSRA guidance and communication initiatives, related to MEPPs
Public Sector Pension Plans Advisory Committee	Provides advice on technical issues and proposed legislation and regulations, as well as on FSRA guidance and communication initiatives, related to public sector pension plans
All Sectors	
Consumer Advisory Panel	Acts as an advisory body to provide advice from a consumer perspective on proposed FSRA policy-related matters and changes

Appendix 5: Overview of FSRA's Key Activities as a Financial Regulator

Prepared by the Office of the Auditor General of Ontario

Activity	Description	Example
Rule-Making	<ul style="list-style-type: none"> The Financial Services Regulatory Authority of Ontario (FSRA) can issue rules with respect to the sectors it regulates under the <i>Financial Services Regulatory Authority of Ontario Act, 2016</i>, subject to sector-specific legislation (with the exception of the loan and trust sector). Rules are similar to legislation (they must be followed by regulated persons and entities). The rule-making process involves public consultations, and rules must be approved by the Minister of Finance before they are implemented. In 2020, a Consumer Advisory Panel was established to provide FSRA with advice from a consumer perspective on policy changes. 	<ul style="list-style-type: none"> To date, FSRA has established seven rules, including a rule related to how credit unions advertise deposit insurance coverage, and a rule specifying what acts and practices in the insurance sector should be considered unfair or deceptive.
Issuing Guidance	<ul style="list-style-type: none"> FSRA issues guidance documents for the public, new entrants and incumbents to understand what is legally binding and what is FSRA's interpretation or application of law. Since FSRA's creation, over 25 guidance documents have been issued. 	<ul style="list-style-type: none"> Examples of guidance FSRA has issued include considerations for training for credit union directors to ensure they can effectively oversee the credit union, as well as best practices for the administration of pension benefits in the case of a marriage breakdown.
Registration and Licensing	<ul style="list-style-type: none"> FSRA gathers information to ensure an entity or person is operating within Ontario and/or has the necessary qualifications/meets minimum requirements to operate in the province. 	<ul style="list-style-type: none"> Pension plans must register with FSRA and identify the type of plan and number of members in the plan, among other things. Insurance agents must be licensed by FSRA to operate in Ontario, and prove they maintain adequate insurance.
Information Collection and Reviews	<ul style="list-style-type: none"> FSRA requires information to be submitted by regulated entities and persons on a regular (often annual) basis and, in some cases, before those entities can make changes to their operations. 	<ul style="list-style-type: none"> Pension plans must provide details of their investments and an actuarial valuation of the plan on a regular basis. For automobile insurance, FSRA approves the rates that insurance companies use to calculate the premiums they charge to their customers (excluding fleets).
Inspections	<ul style="list-style-type: none"> FSRA performs routine inspections of regulated entities. Inspections are performed to determine if previous information reported to FSRA is accurate, as well as to help assess if the regulated entity or person is following relevant legislation and sector rules. Inspections can involve on-site visits, interviews with staff and requests for documentation. 	<ul style="list-style-type: none"> For a credit union inspection, an inspector will perform analytical procedures on a credit union's information to assess its oversight of significant activities, key performance measures and governance practices (e.g., if the credit union is following relevant legislation and sector rules). These inspections involve FSRA staff conducting interviews with credit union staff and senior management; analyzing credit union policies; and reviewing documents related to credit union activity, such as consumer or commercial lending agreements.

Activity	Description	Example
		<ul style="list-style-type: none"> • FSRA also conducts assessments within the credit union sector to determine a portion of the rate that a credit union will pay into the Deposit Insurance Reserve Fund (DIRF). The rate is based on the following: <ul style="list-style-type: none"> • About 36% is based on FSRA's assessment of three main governance factors: how the credit union's board operates, how the credit union's internal audit department and its board's audit committee function, and its processes related to the issuing and monitoring of loans to credit union members. • About 64% is based on a calculation that FSRA performs to determine the level of a credit union's capital relative to the riskiness of a credit union's assets (determined from the credit union's financial statements on an annual basis).
Investigations	<ul style="list-style-type: none"> • Investigations may be performed based on concerns over non-compliance with relevant laws, regulations and rules as part of FSRA's regular monitoring and examinations, or based on complaints received from members of the public. 	<ul style="list-style-type: none"> • We noted that for the 2019/20 to 2021/22 fiscal years, the highest number of complaints were received with respect to the property and casualty insurance sector. On average, this sector received 375 complaints over the three years (or 40% of the total).
Enforcement	<ul style="list-style-type: none"> • When FSRA finds evidence of non-compliance with relevant laws or rules, it can use its enforcement powers. These include issuing compliance orders, which require the entity to take a certain action, or issuing an administrative monetary penalty. See Figure 3 for enforcement actions taken by FSRA. 	<ul style="list-style-type: none"> • FSRA issued \$5.8 million in administrative penalties to four insurance subsidiaries of a bank related to the subsidiaries charging insurance rates that were different than what was authorized by the provincial government. In 2021, the bank settled by agreeing to pay \$3.2 million.
Complaints handling and risk assessment	<ul style="list-style-type: none"> • FSRA reviews complaints against individuals/entities that are licensed or should be licensed by FSRA within its regulated sectors. Where non-compliance is identified, potential outcomes may include issuing warning letters, publishing public warning notices, or referring a non-compliance for investigation and/or enforcement to the legal and enforcement department. 	<ul style="list-style-type: none"> • FSRA received a complaint from a consumer alleging that an unlicensed agent is selling insurance. Upon review, FSRA issued a public warning notice posted on its website that the agent is not licensed to conduct insurance business in Ontario.

Appendix 6: Overview of Past Provincial Government Reforms to the Ontario Automobile Insurance Sector

Source of data: Financial Services Regulatory Authority of Ontario

Year	Summary of Coverage Changes	Notes
1990	<p>Accident Benefits</p> <ul style="list-style-type: none"> Introduced a partial no-fault insurance scheme Set a \$500,000 limit on medical and rehabilitation benefits Set income replacement benefits to a maximum of \$600 per week <p>Tort¹</p> <ul style="list-style-type: none"> Created bodily injury and monetary threshold 	Bill 69 (June 1990) introduced the Ontario Motorist Protection Plan (OMPP).
1994	<p>Accident Benefits</p> <ul style="list-style-type: none"> Increased income replacement benefits to \$1,000 maximum per week Increased medical and rehabilitation benefits to a limit of \$1 million Established Designated Assessment Centres² to address disputes over benefit entitlements <p>Tort</p> <ul style="list-style-type: none"> Expanded bodily injury threshold Established \$10,000 deductible³ Eliminated ability to sue for economic loss 	Bill 164 (January 1994) tightened the right to sue for economic and non-pecuniary damages, and further expanded a comprehensive no-fault benefits system.
1996	<p>Accident Benefits</p> <ul style="list-style-type: none"> Reduced income replacement benefits to a maximum of \$400 per week Introduced a two-tier schedule of benefits for catastrophic versus non-catastrophic injuries Required insurer approval prior to treatment <p>Tort</p> <ul style="list-style-type: none"> Limited bodily injury threshold Increased deductible to \$15,000³ Restored right to sue for economic loss 	Bill 59 (November 1996) reversed some tighter tort rules while moving away from the comprehensive no-fault benefits of Bill 164.
2003 ⁴	<p>Accident Benefits</p> <ul style="list-style-type: none"> Introduced pre-approved treatment frameworks for minor injuries Capped fees charged by health-care service providers Required insurers to set up a medical assessment or a Designated Assessment Centre assessment for denials² Enabled non-catastrophically injured parties to claim future care costs <p>Tort</p> <ul style="list-style-type: none"> Increased deductible to \$30,000³ Introduced definitions for “serious,” “important” and “permanent” to tighten verbal threshold 	Bill 198/Bill 5 (October 2003) introduced: (i) measures to control bodily injury costs, and (ii) the Statutory Accident Benefits Schedule (SABS).

Year	Summary of Coverage Changes	Notes
2006 ⁴	Accident Benefits <ul style="list-style-type: none"> • Eliminated Designated Assessment Centres • Transferred oversight of assessment providers to health professional associations 	
2010 ⁴	Accident Benefits <ul style="list-style-type: none"> • Introduced minor injury guideline and \$3,500 limit on benefits • Reduced medical and rehabilitation benefits for non-catastrophic injuries to \$50,000 and introduced a \$100,000 optional medical and rehabilitation benefit • Made housekeeping/home maintenance and caregiver benefits optional • Capped medical assessment costs at \$2,000 per assessment 	<p>Reg 34/10 (September 2010) brought in reforms from the Financial Services Commission of Ontario (FSCO) review designed to simplify the system, provide consumers with more product choices, encourage price stability and promote a long-term financially sustainable system.</p> <p>Take-up of optional coverage was relatively low (less than 5% of insured vehicles).</p>
2014–2016 ⁵	Accident Benefits <ul style="list-style-type: none"> • Established a new licensing requirement for health-care service providers to allow for receipt of direct payment by insurers • The Dispute Resolution System under FSCO was replaced; all future SABS disputes were to be resolved through the LAT and not in courts • New optional combined medical, rehabilitation and attendant care benefit for non-catastrophic injuries were allowed to be offered by automobile insurance providers and benefits to injuries remaining in instances where the non-catastrophic benefits are exhausted • Amended the definition of catastrophic injury Tort <ul style="list-style-type: none"> • Increased the deductible on court awards for pain and suffering³ and introduced annual indexation of the deductible • Increased the monetary threshold beyond the tort deductible for non-pain and suffering, and introduced annual indexation of the threshold • Introduced the ability to consider the tort deductible, if applicable, when determining a party's entitlement to costs in bodily injury action Other <ul style="list-style-type: none"> • Introduced a mandatory winter tire discount 	<p>Bill 15 (January 2015) introduced changes to improve efficiency, regulation and licensing of third-party vendors; and reduced the prejudgment interest rate.</p> <p>Bill 91 (introduced in stages) changed the tort deductible and threshold effective August 2015; and revised the catastrophic impairment definition and SABS benefit level.</p> <p>Like the 2010 reforms, take-up of optional coverage remains relatively low (~10% of vehicles insured).</p>

1. Tort, as it relates to automobile insurance, refers to instances where accident victims are able to sue at-fault drivers for damages related to their injuries.

2. Designated Assessment Centres were created in 1994 and eliminated in 2006. The centres were for automobile insurance companies and claimants to use when a third-party neutral opinion was required to determine a claimant's injuries and the benefits that applied to those injuries.

3. When victims successfully sue at-fault drivers under the tort system, if the amount awarded by the courts exceeds a certain threshold (indexed to \$138,344 in 2022), a deductible from what the insurance company must pay out applies (indexed to \$41,503.50 in 2022). For example, if a victim is awarded \$150,000 for suing an at-fault driver for pain and suffering damages, the insurance company would only have to pay them out \$108,496.50.

4. Reforms between 2003 and 2010 were aimed at health-care service provider fees and assessments, pre-approved treatment guidelines, and an increased monetary threshold for court awards for pain and suffering. The 2010 changes were impactful as they scaled back accident benefits, expanded optional benefits, and introduced a minor injury definition and treatment cap.

5. Initiatives during this period introduced major changes in multiple stages under Bills 15 and 91, forcing insurers to re-file rates (which is how insurers determine what rate to charge individuals for an automobile insurance premium).

Appendix 7: Ontario Single-Employer Defined Benefit Pension Plans Identified in the *Pension Benefits Act* as Not Covered by the Pension Benefits Guarantee Fund

Source of data: Financial Services Regulatory Authority of Ontario

City of Etobicoke Pension Plan
City of Ottawa Superannuation Fund
Corporation of the City of Hamilton Municipal Retirement Fund
Corporation of the City of North Bay Employees' Pension Plan
Corporation of the City of Oshawa Employees' Pension Plan
Corporation of the City of York Employee Pension Plan
Corporation of the Town of Tillsonburg Employees Pension Plan
General Motors Canadian Hourly-Rate Employees Pension Plan
General Motors Canadian Retirement Program for Salaried Employees
Hamilton Street Railway Pension Plan (1994)
Improved Retirement Plan for the Employees of The Corporation of the City of Chatham
Metropolitan Toronto Pension Plan
Municipality of Metropolitan Toronto Police Benefit Fund
Ontario Public Service Employees' Union Pension Plan
Public Service Pension Plan
Registered Pension Plan for Employees of The Township of North Glengarry
Toronto Civic Employees Pension and Benefit Fund
Toronto Fire Department Superannuation and Benefit Fund
Town of Gananoque Employees Pension Plan

Appendix 8: Audit Criteria

Prepared by the Office of the Auditor General of Ontario

Private Passenger Automobile Insurance

1. Effective and efficient processes are in place to regularly collect and assess information on automobile insurance sector participants to confirm compliance with all required legislation, regulations and other requirements.
2. Effective and efficient processes are in place to identify, investigate, take appropriate enforcement action on and deter non-compliant activity among automobile insurance sector participants.
3. Effective and efficient processes are in place to maintain reasonable insurance rates through the identification and reduction of fraudulent activities and other areas of excess cost in the automobile insurance sector.
4. Effective and efficient processes are in place to educate and enhance the knowledge of consumers and provide the resources they need to make informed automobile insurance decisions.
5. Meaningful performance indicators and targets are established, and performance is monitored against the indicators and targets. Results of performance indicators that are useful to the public are publicly reported and any corrective actions required are taken in a timely manner.

Credit Unions

1. Effective and efficient processes are in place to regularly collect and assess information on credit union operations and practices to confirm compliance with all required legislation, regulations and other requirements.
2. Effective and efficient processes are in place to identify, investigate, take appropriate enforcement action on and deter non-compliant activity by credit unions and their staff.
3. Effective and efficient processes are in place to assess the adequacy of the Deposit Insurance Reserve Fund and take any corrective actions required in a timely manner.
4. Effective and efficient processes are in place to educate and enhance the knowledge of consumers and provide the resources they need to make informed financial decisions.
5. Meaningful performance indicators and targets are established, and performance is monitored against the indicators and targets. Results of performance indicators that are useful to the public are publicly reported and any corrective actions required are taken in a timely manner.

Provincially Registered Pension Plans

1. Effective processes are in place to regularly collect and assess information on pension plan operations and practices to confirm compliance with all required legislation, regulations and other requirements.
2. Effective and efficient processes are in place to identify, investigate, take appropriate enforcement action on and deter non-compliant activity by pension plan administrators, trustees and employers.
3. Effective and efficient processes are in place to assess the operation of the Pension Benefits Guarantee Fund and take any corrective actions required in a timely manner.
4. Effective and efficient processes are in place to educate and enhance the knowledge of pension plan beneficiaries and provide the resources they need to make informed decisions regarding their pension benefits.
5. Meaningful performance indicators and targets are established, and performance is monitored against the indicators and targets. Results of performance indicators that are useful to the public are publicly reported and any corrective actions required are taken in a timely manner.

Appendix 9: Examples of Reports Proposing Automobile Insurance Reform

Prepared by the Office of the Auditor General of Ontario

Report Name	Author	Release Date
Enabling Recovery from Common Traffic Injuries: A Focus on the Injured Person	Ontario Protocol for Traffic Injury Management Collaboration (through the Financial Services Commission of Ontario)	January 2015
Returns on Equity for Automobile Insurance Companies in Ontario	Dr. Fred Lazar and Dr. Eli Prisman	March 2015
Fair Benefits, Fairly Delivered: A Review of the Auto Insurance System in Ontario	David Marshall	April 2017
Final Report of the Residents' Reference Panel on Automotive Insurance in Ontario	Residents' Reference Panel on Automotive Insurance in Ontario (through the Financial Services Regulatory Authority of Ontario)	January 2021 August 2022*
Time for a Tune-up: Reforms to Private-Sector Auto Insurance Could Lower Costs and Add Value for Consumers	David Marshall	March 2022

* FSRA convened the Residents' Reference Panels on Automobile Insurance in 2020 and 2022. The 2020 Panel's report was published in March 2021, and the 2022 Panel's report was published in August 2022.

Appendix 10: Recommendations from the 2017 Marshall Report to the Ministry of Finance

Prepared by the Office of the Auditor General of Ontario with data from the David Marshall Report, 2017, *Fair Benefits Fairly Delivered: A Review of the Auto Insurance System in Ontario*

Recommendation

1. The regulator should undertake serious discussions with the Ministry of Health and Long-Term Care to develop a service for lifetime management of care for seriously injured accident victims. Eventually, as the province develops this expertise, the expertise and even services could expand to address other injuries outside of the auto insurance system.
2. The regulator should move as quickly as possible to create programs of care for the most common types of automobile injuries (based on the Common Traffic Injury Guidelines).
3. The regulator should be provided with a sufficient budget to monitor and continuously improve the outcomes of existing programs of care and partner with the government on research into the development of new programs of care as the need arises—for example, for neurological injuries, injuries from concussions, chronic pain and post-traumatic stress disorder. Consideration should be given to leveraging existing programs that have been developed by other jurisdictions.
4. The regulator should conduct regular quality control studies of the outcomes of future care recommended by independent examination centres to monitor the quality of such recommendations and ensure their effectiveness.
5. The regulator should undertake a complete overhaul of the pricing schedules for treatment by providers and evaluators to bring them more in line with prices being paid by other similar bodies, such as workers' compensation boards, and to emphasize outcomes rather than [number] of treatments.
6. The regulator should monitor the overall use of legal representation in the accident benefits system to analyze why claimants are needing to resort to legal advice. Also, the regulator should examine if the system should be further simplified, barriers should be removed or other practices changed to reduce the need for the time and expense of legal involvement.
7. The regulator should monitor, on a continuous basis, the length of time insurance companies are taking to provide benefits to claimants and determine if undue delays are causing financial harm to accident victims.
8. Insurers should be required to establish an internal appeal process to provide an early resolution to claims and reduce the number that have to proceed to the external dispute resolution system. The regulator should monitor the effectiveness of the internal appeal process and be empowered to order corrective action if a particular insurer is generating an unusual number of claims to the dispute resolution process.
9. The new regulator should be given authority to make regulations. Rules should support insurers to be in direct contact with their clients so that they can manage care and recovery for their clients.
10. Consumer education in the field of auto insurance is a key component of a well-functioning system. In conjunction with making the rules and regulations governing the system simpler, the government should seriously address the need for enhanced consumer education. The recommendations of the Ontario Auto Insurance Anti-Fraud Task Force and the creation of an "Office of Driver Adviser" should be considered.
11. The regulator should monitor the awards and costs of the tort system to determine if changes need to be made to the no-fault system to avoid having to sue under tort and to recommend changes to the tort system if costs appear to outweigh benefits from a public policy point of view.
12. To the extent possible, the regulatory regime should be overhauled to encourage insurers to innovate and introduce new products even on a trial or experimental basis.
13. A new, independent regulator with its own board of directors for automobile insurance [should] be established either as part of the new Financial Services Regulatory Authority or a new separate office specifically for auto insurance.
14. The new regulator needs to be equipped with the staff and expertise to act as a central governor over the automobile insurance marketplace including the conduct of all the players and providers within that marketplace.
15. The new regulator should be required to set standards of performance for the marketplace and to be accountable to the government for meeting those targets.

Appendix 11: Examples of Practices Done in Other Jurisdictions and/or Recommended to FSRA and the Ministry of Finance to Improve the Private Passenger Automobile Insurance Sector

Prepared by the Office of the Auditor General of Ontario

Area	Current Practice in Ontario	Practice in Other Jurisdiction/Industry
Model for Treatment for Automobile Accident Victims	<ul style="list-style-type: none"> • Ontario uses a cash-payment model. The amount an insurance company pays to an automobile accident victim for first-party insurance coverage is based on the Statutory Accident Benefit Schedule (SABS), a regulation under the <i>Insurance Act</i>. The SABS describes what benefits must be included and coverage limits, including medical, rehabilitation and attendant care benefits that stipulate dollar thresholds for minor (\$3,500), more serious (\$65,000 standard with options to increase), and catastrophic (\$1 million standard with options to increase) injuries. This schedule can create an incentive for claimants to reclassify a minor injury to something more serious in order to increase damages, leading to an increase in lawyer fees. • The SABS has not been reviewed since our Office's previous audit of the automobile insurance industry in 2011. Currently, the Financial Services Regulatory Authority of Ontario (FSRA) has no authority to make changes to the regulation as that power rests solely with the Ministry of Finance. In its Blueprint for Putting Drivers First plan (discussed in Section 4.1.2), the Ministry introduced an initiative that would implement a "Care, Not Cash" default, with an option for consumers to choose cash settlements, but the initiative was paused due to the COVID-19 pandemic. • FSRA does not have the authority alone to pursue a care-based model as it would require changes to regulations. Nevertheless, as the insurance regulator, FSRA has not conducted comprehensive qualitative and quantitative analyses to validate/support the creation of a care-based model. However, FSRA has provided advice to the Ministry of Finance about how to ensure the concept of care is addressed in a "Care, Not Cash" model, and has also recommended that its authority be expanded to allow for testing of care-based approaches. 	<ul style="list-style-type: none"> • Other jurisdictions in Canada use a care-based model. This approach provides health-care providers, consumers and insurance companies with more certainty of the cost and duration of treatments needed in the event of an automobile accident injury, for example, by implementing treatment protocols that provide a more structured way to treat injuries such as sprains, strains and whiplash. • For example, Alberta has published the Diagnostic and Treatment Protocols Regulation for insurers, lawyers and health-care practitioners, with each protocol providing a number of treatments. These treatment plans are developed in consultation with health-care practitioners and best available research and cannot be disputed by insurers. • Marshall's 2017 and 2022 reports* recommended that Ontario move from a cash-payment to care-based model, as allowing cash to be a part of the claims process can raise the cost of claims (such as through frivolous claims) and therefore premiums. The government's 2019 Budget also indicated a move toward a "Care, Not Cash" default to ensure that coverage paid by policyholders goes to treatment, and not legal fees. • Saskatchewan changed its cash-based tort system to a no-fault care-based system, resulting in a decrease of 28% in whiplash claims.

Area	Current Practice in Ontario	Practice in Other Jurisdiction/Industry
Medical Assessment Process for Automobile Accident Benefits Claims	<ul style="list-style-type: none"> • Ontario's current claims process allows for disputes between the insurer and the health practitioner's opinions over the accuracy of the medical assessment and appropriateness of the related treatment plan. When this occurs, the insurer will obtain its own medical assessment to assess the individual's needs, at an additional cost. We noted that even though the Province has limited the amount payable by an insurer for a medical assessment conducted under the SABS to \$2,000, the current system can result in multiple medical assessments being conducted to determine the severity of an accident victim's injuries. This increases costs to the insurance system and can delay when an accident victim receives the care they require. The subjective "reasonable and necessary" test in the SABS for benefit eligibility, and the allowance for multiple assessments of injuries, can frequently lead to claimants retaining lawyers to navigate the accident benefits claims process. • Our review of information surrounding medical assessment costs from Health Claims for Auto Insurance (HCAI)—an Ontario-wide accident benefits billing system—found that in 2019, it cost \$85 million to provide \$269 million in treatment to accident victims. Looking to previous years, we see this amount has historically been much higher. Given the nature of HCAI's billing system, the treatment amount for older accident years and the amount for medical exams are much higher than recent accident years. For instance, for accidents in 2015, it cost \$213 million in insurer- and medical provider-initiated exams to provide \$412 million in treatment to accident victims. Medical assessment costs were 52% as much as treatment costs. • KPMG, retained by the IBC, estimated in 2012 that fraud covers between 9% and 18% of total claims costs of automobile insurance in Ontario. Fraud was also identified by the government of Ontario in 2019 (as discussed in Section 4.1.2), as an area where changes would be made to lower automobile insurance costs for consumers. However, no action has been taken by FSRA or the Ministry to date on this initiative. While FSRA is constrained by its authority to make these identified changes, it does have the ability to publish analysis and disclosure information surrounding these costs for the Ministry and the public. 	<ul style="list-style-type: none"> • As noted in Marshall's 2017 report to the Ministry, the Workplace Safety and Insurance Board (WSIB), which also deals with injured patients, pays on average a total of about \$26 million for medical assessments per year for a system that handles 170,000 claims a year. On the other hand, the Ontario automobile insurance system on average handles about 60,000 (or 64% fewer) claims per year at a tremendous cost of about \$350 million, or a more than 12 times higher cost. • Marshall recommended the creation of independent assessment centres which would provide an independent opinion on the best future care for an individual within the financial limits of the insurance policy. The insured and insurer would not be able to dispute those decisions, and the assessment of the independent medical professional would be final. This approach would reduce claim costs by decreasing the risk of fraudulent medical assessments.

Area	Current Practice in Ontario	Practice in Other Jurisdiction/Industry
Accreditation of Automobile Repair Shops	<ul style="list-style-type: none"> • Ontario does not require shops involved in automobile repairs paid through insurance to be accredited. Requirements for such shops in Ontario are mainly outlined by the <i>Consumer Protection Act, 2002</i>. As well, the Ministry of Public and Business Service Delivery is responsible for complaints and the inspection of these shops, and (where appropriate) investigations and enforcement action through Consumer Protection Ontario. • Due to the lack of a licensing or accreditation requirement, the Consumer Services Operations Division of Consumer Protection Ontario does not have data on the total number of these shops in the province to be inspected. Since 2019, the organization conducted 234 inspections based on complaints received, but only one led to charges. There is a risk that the current oversight of automobile repair shop operations is unable to minimize fraudulent or overstated claims that may be flowing through those shops. Our audit found that the standards these businesses have to meet to operate may be lower than those of accredited shops. • The Automotive Industries Association (AIA) of Canada informed us that adequate oversight of automobile repair shops and tow truck operators is lacking in Ontario, and that the industry is supportive of changing the system. The AIA administers I-CAR, a training and recognition program aimed at providing and updating necessary skills for service providers in the collision repair industry. Automobile repair shops in Ontario are not required to take this program. 	<ul style="list-style-type: none"> • The Insurance Corporation of British Columbia (ICBC) sets the minimum requirements for collision repair facilities to apply to its Collision Repair Program, which sets standards to be followed by these facilities, including those related to training and equipment. ICBC tracks certain performance indicators of each facility, each with its own minimum threshold. When there are instances of severe or repeated non-compliance, or a facility fails to meet these minimum thresholds for 12 months, the ICBC can remove facilities from the program. Facilities must participate in the program to be able to directly bill the insurance provider, which in this case is done through the government of British Columbia. The ICBC may also recover funds from facilities for instances such as billing for an operation not performed. • Saskatchewan General Insurance (SGI) accredits automobile repair shops and requires that shops doing business with them obtain the AIA's I-CAR training for their staff, or equivalent. SGI also performs repair audits of vehicles whose damages were paid through insurance, and can recover funds from an automobile repair shop found to be non-compliant with the accreditation requirements. SGI's data system allows access to data from all points of the repair process and can target audits this way as well, for example, if it sees that costs for one type of repair or at one stage of the repair at an accredited shop are much higher compared to those at other accredited shops. SGI and automobile collision repair shops enter into contractual agreements that identify the requirements of each party and prohibited practices. • In his 2022 report, Marshall identified that the actual automobile repair is one of the areas where fraud occurs in the sector. To reduce this fraud, he recommended limiting automobile insurance claimants to work only with repair shops accredited under an accreditation program.

* Reports include Marshall's 2017 report titled *Fair Benefits Fairly Delivered: A Review of the Auto Insurance System in Ontario*, as well as the 2022 report titled *Time for a Tune-up: Reforms to Private-Sector Auto Insurance Could Lower Costs and Add Value for Consumers*.

Appendix 12: Status of 21 Initiatives within the Government of Ontario's Blueprint for Putting Drivers First (Blueprint), as of September 30, 2022

Source: Ministry of Finance

Initiative	Description of Initiative	Status ¹
Tackling Fraud		
1. Make contingency fee agreements more transparent	Working with the Ministry of the Attorney General (MAG), the Ministry of Finance (MOF) implemented regulatory amendments that now require a lawyer/paralegal to disclose the maximum contingency fee percentage charged in certain circumstances and to provide potential clients with the standard form consumer guide.	Completed on January 1, 2022
2. Overhaul the licensing system for health-care service providers (HSPs)	MOF to work with the Financial Services Regulatory Authority of Ontario (FSRA) to review the licensing system and make necessary amendments. * Implementation of anti-fraud measures may result in system changes that impact HSPs (e.g., refusal of a licence to a fraudulent HSP).	Little to no progress This initiative is dependent on FSRA being granted powers to implement anti-fraud measures (see Section 4.1.2).
3. Lower the treatment fees charged by HSPs	MOF to review HSP fees for treatment of accident injuries (tied to medical assessment reform).	Little to no progress Put on pause in 2019. ² This change would be bundled with initiative #2 above.
4. Bring credibility and accountability to the medical assessment process	MOF to engage stakeholders, FSRA and the Ministry of Health to determine a more effective medical assessment process, to bring greater credibility and accountability to the system and stop competing assessments for the same injury from occurring.	Little to no progress Put on pause in 2019 ²
5. Develop strong anti-fraud measures/FSRA Unfair or Deceptive Acts or Practices (UDAP) rule	Anti-Fraud Measures MOF to work collaboratively with FSRA to develop stronger anti-fraud and anti-abuse measures with respect to automobile insurance to deter deceptive or fraudulent conduct, practices and activities.	In progress – announced in 2022 spring bill
	UDAP Rule MOF to work collaboratively with FSRA to modernize the UDAP Regulation (O. Reg 7/00) which described activities and behaviours that are unfair or otherwise harmful to consumers. FSRA's new UDAP rule, which replaced the UDAP Regulation, was brought into effect on April 1, 2022.	Completed on April 1, 2022
6. Establish a modern online claims process to allow consumers to see how their benefits are being used	Provide customers with helpful information about their claim, including payment provider (first payer) and amounts, to promote transparency. (Implementation of the Anti-Fraud Measures may result in system changes that impact the delivery of this initiative.)	Put on pause in 2019 ²

Initiative	Description of Initiative	Status ¹
Offering Consumer Choice		
7. Create more choice in discount options: file and use; endorsements (i.e., clauses added to an automobile insurance policy that make changes)	FSRA implemented a streamlined rate approval (“file-and-use”) system, established a new Guidance Framework, and started its review of inherited guidance to eliminate unnecessary regulatory burden for the industry.	Completed on October 9, 2019
8. Create more choice to make automobile insurance more affordable: credit history	Grant consumers the ability to opt to share credit information with insurers, which may result in a premium saving. Policy analysis has been conducted on this initiative, but the government has not made a decision to move forward on this item.	Put on pause in 2019
9. Create more choice in automobile insurance coverage	Grant consumers the ability to opt out of Direct Compensation Property Damage coverage when they determine that insuring their older vehicle costs more than the vehicle is worth.	In the process of being implemented (comes into force January 1, 2024)
10. Simplify consumer experience: electronic proof of automobile insurance	Insurers may now provide electronic insurance cards that serve as proof of automobile insurance on a mobile device. Consumers have the option of keeping an electronic insurance card on their mobile device instead of, or in addition to, a paper version.	Completed on September 5, 2019
11. Simplify consumer experience: electronic communications	The government clarified that insurers can use electronic communications and e-commerce when interacting with their customers. Customers have the choice of whether to receive paper or electronic communications.	Completed in December 2019
12. Simplify consumer experience: forms, policies, etc.	FSRA is working to modernize and update its policies and form documents to the new FSRA standard, including forms previously posted on the Financial Services Commission of Ontario website. Timelines for completion vary.	In progress – FSRA continuing to update and modernize forms (e.g., OCF-1)
Adopting the Driver Care Plan		
13. Establish a Driver Care Card: information to make the claims process easier to navigate	Improves and simplifies consumer experience after an accident. The government has not publicly consulted on the Driver Care Card proposal and cannot comment on any policy implementation details.	Put on pause in 2019
14. Establish a “Care, Not Cash” default, with the option to choose cash settlements	Remove incentives for fraud by ensuring insurance coverage is used only for treatment and care.	
15. Establish \$2 million default benefit limit for catastrophic injuries	Ensures options are available and coverage meets consumer needs by increasing the minimum coverage to \$2 million.	
16. Improve early treatment system for common injuries, including mental health treatment	With the purpose of improving access to care for common injuries. The government has not yet publicly consulted on a proposal for this initiative and cannot comment on any policy implementation details.	

Initiative	Description of Initiative	Status ¹
Increasing Competition and Innovation		
17. Increase monetary limit for simplified procedures	Working with MAG, MOF made changes to the simplified procedures rule that increased the monetary limit for simplified procedure claims from \$100,000 to \$200,000, exclusive of interest, including the amount of money claimed (if any) and the fair market value of any real or personal property. Additionally, the monetary limit for the Small Claims Court increased from \$25,000 to \$35,000.	Completed on January 1, 2020
18. Support innovative business models, pricing structures and technology	<ul style="list-style-type: none"> Enables FSRA to operate a “regulatory sandbox” for insurers to pilot innovative initiatives to bring new consumer-focused products and services to market more quickly (came into force January 1, 2022). Allows insurers to electronically terminate policies, which would enable fully digital insurers to operate in Ontario (came into force January 1, 2022). Enabled credit unions to sell insurance in-branch and/or online. 	Completed on January 1, 2022
19. Improve automobile insurance rate regulation	Insurers must file with FSRA how they will be pricing their private passenger (personal automobile) and some commercial automobile insurance for approval prior to use. FSRA is implementing a new strategy for reforming the regulation of automobile insurance rates and underwriting to ensure fairness in rates in areas such as replacing outdated guidance, including existing guidance on territorial ratings.	In progress – FSRA’s Rate Regulation Strategy to be delivered to MOF in March 2023
20. Reduce burden (FSRA): review and simplify guidelines, bulletins and forms	As of January 2022, FSRA removed 80% of outdated automobile insurance guidelines, bulletins and forms.	Completed in January 2022
21. Reduce burden (MOF): review and simplify legislation and regulations, e.g., SABS	MOF has repealed outdated and ineffective provisions/legislation.	Completed on July 1, 2022

- The MOF informed us that due to the COVID-19 pandemic and the associated need to focus on other priorities, including working with FSRA to facilitate providing relief to automobile insurance policy holders, the government paused its work on several Blueprint initiatives, for which little or no action has been taken since.
- In the process of prioritizing some Blueprint initiatives over others, the MOF paused action on some initiatives in 2019, with the plan to resume these once the priority initiatives have been addressed.

Appendix 13: Weaknesses of FSRA's Oversight of Insurance Brokerages and Brokers

Prepared by the Office of the Auditor General of Ontario

Weakness	Description and Findings
<p>FSRA's review of the insurance broker industry, through the Registered Insurance Brokers of Ontario (RIBO), is limited.</p>	<ul style="list-style-type: none"> • In Ontario, RIBO oversees insurance brokers (individuals who work with multiple insurance companies and can thus provide a consumer with a wide range of policies to choose from). The Financial Services Regulatory Authority of Ontario (FSRA) reviews RIBO's operations annually, provides RIBO with its recommendations, and presents its findings to the Minister of Finance, who then lays the report before the Legislative Assembly of Ontario. • In its latest review (for 2020/21) of RIBO's operations, FSRA concluded that RIBO is regulating the industry in accordance with regulations. However, we noted FSRA's level of inspection could be improved. FSRA's recommendations in its latest report focused heavily on RIBO updating its plans and policies, cybersecurity, and website. We noted that neither FSRA nor RIBO has performed a detailed analysis of the insurance broker industry overall to determine if there is systemic bias in the way brokers operate or refer clients, based on ownership and commission structures between them and insurance companies. We learned that RIBO, as part of the 2022/23 licence renewal process, is collecting more detailed data on ownership and other financial interest in brokerages and is examining how to make conflict-of-interest and commission disclosure requirements more meaningful for consumers. • RIBO conducts inspections (what it calls "spot checks") of both brokerages and individual brokers, and obtains documentation from the brokerages, such as details of the disclosure of commissions that brokers receive. RIBO sets a goal of how many of these inspections it aims to perform annually. RIBO's own data showed that between 2017/18 and 2021/22, it had not once met this goal. Its worst performance was in 2021/22, when it aimed to perform 240 inspections but only completed 112. Between 2017/18 and 2021/22, RIBO only conducted about 67% of the inspections it set out to conduct. While FSRA has identified in its review of RIBO that the regulator has made changes to its inspection regime, and that the number of inspections has been below target for multiple years, it has not recommended corrective action or highlighted what actions RIBO is taking to better achieve its target due to RIBO's budget restrictions, and expanded scope of its inspections. Going forward, RIBO plans to apply a risk-based, targeted compliance framework to its inspections which will impact the number of inspections it conducts.

Weakness	Description and Findings
Insurance brokerages fully or majority-owned by an insurance company are not required to explicitly disclose this information to consumers.	<ul style="list-style-type: none">• Brokers can help consumers find the most cost-effective option among various insurance companies they work with. Insurers or their affiliates are not restricted from owning a brokerage in Canada. This is the case in Ontario (since December 2004) as well as in most other provinces (except for Quebec, which prohibits an insurer from owning more than a 20% stake in a brokerage). This means that in Ontario, insurance companies are able to own 100% of a brokerage that sells its own insurance policies. Insurance brokerages that are wholly or partly owned by insurance companies and sell the insurance products of their parent company may have a conflict of interest that puts their consumers at risk. Specifically, the parent company may influence its brokers to sell its own products, even if other insurance companies are willing to charge a lower premium to a consumer. Our review of brokerages at RIBO found that at the time of our audit, insurance companies own or have financial interest in 110 brokerages in Ontario.• The RIBO Principal Broker Handbook, which outlines regulatory requirements and guidelines for insurance brokerages, states that the broker must disclose a real or potential conflict of interest to the consumer at the time of quotation. As well, Regulation 991 of the <i>Registered Insurance Brokers Act</i> entitles consumers to receive disclosure of any real or perceived conflict of interest, which would include information about ownership of a brokerage, and specifies that this information must be disclosed in writing. As such, we found that in practice, brokerages are not required to explicitly communicate this ownership relationship to consumers prior to giving them insurance quotes or a recommendation on which to select.• As part of our audit, we obtained 10 automobile insurance quotes online representing Ontarians of different sexes, territories, and automobile make and model from a brokerage (BrokerLink) that is wholly owned by an insurance company. Of these 10 quotes, the insurance company was included in nine of them. While the brokerage posted both its ownership and commission structures online publicly, we noted that in preparing the quotes, this was not disclosed to consumers. Rather, the onus is on the consumer to search through the website to obtain this information.• Moreover, if an individual obtains an insurance quote via telephone (a common method of getting quotes), even though brokers have disclosure requirements, some consumers may not always receive these kinds of disclosures upfront or prior to deciding on which insurance policy to purchase (unless they explicitly ask for it). In a sample of 50 websites of insurance brokerages in Ontario we reviewed, 43 (86%) of them disclosed their ownership structure. However, we noted that in a sample of 10 phone calls we made to brokerages to request a quote, only one (10%) disclosed their ownership structure prior to being asked. Additionally, we reviewed the websites of 10 brokerages that insurance companies either own or have financial interest in to determine if appropriate disclosure was provided. We noted that three of these 10 brokerages did not adequately disclose this information. To this end, some brokerages are not effectively disclosing ownership disclosures to be compliant with Regulation 991.

Weakness	Description and Findings
<p>Insurance brokerages are not following the requirement to disclose their commission structures.</p>	<ul style="list-style-type: none"> • An insurance company generally pays an insurance brokerage a portion of the policy the brokerage sells to a consumer. Our review of a sample of automobile insurance brokerages that have publicly disclosed their commission structure showed that the commissions they receive from insurance companies may be as high as over 20% of a premium per client. This amount is generally paid per policy, including renewals. If an insurance brokerage receives a higher commission from one insurance company compared to another company they work with, there is a risk the brokerage may try to influence a consumer to go with the policy that earns it more money, even if the policy is more expensive than another company's quote. Inherent conflicts of interest like this are why disclosure is required. • The RIBO Principal Handbook is a guidance tool designed to help brokerages understand the requirements and standards of conduct they must meet as set out under the <i>Registered Insurance Brokers Act</i>. It states that brokerages are required to disclose the insurance companies they have commission agreements with, and the range of commission percentage they receive, to the consumer. Commission information must be made available to consumers if asked. It is also required to be available in other documents that are accessible, such as the final policy document, but consumers may not know to look for this information. Essentially, this information may not be explicit or apparent to the consumer. As part of our audit work, we reviewed the websites of a sample of 50 automobile insurance brokerages in Ontario to determine whether they disclosed their commission structures. Only 14 (or 28%) disclosed some form of information regarding the commission percentage they receive from each company they sell insurance for. Additionally, in our sample of 10 phone calls we made to brokerages to request a quote, we noted that only one disclosed their commission structure prior to being asked. • Consumers are likely unaware of the potential biases of the broker they are working with, as brokerages are not required to provide a consumer with all possible quote options and are subject to only a weak requirement to disclose the commission structure in place with each insurance company it works with (unless explicitly asked). As well, FSRA does not collect information on which companies brokerages work with, the brokerage's ownership structure, or the commissions paid by each insurance company to the broker. Thus, it is not able to determine potential conflicts of interest, and who and what to assess as part of its inspections of regulated automobile insurance entities, as well as of RIBO's operations. • RIBO representatives explained to us that although RIBO licensees are not required to disclose to FSRA the number of insurance companies they have contracted with, FSRA has the authority to request this information under Section 442.2(1) of the <i>Insurance Act</i>, but has not done so.

Appendix 14: Weaknesses of FSRA's Credit Union Inspection Process

Prepared by the Office of the Auditor General of Ontario

Weakness	Description and Findings
<p>Governance inspections by FSRA were incomplete.</p>	<ul style="list-style-type: none"> • We reviewed a sample of 20 credit union inspections conducted by the Financial Services Regulatory Authority of Ontario (FSRA) since 2019. In eight cases, we found the inspection did not collect fulsome evidence to evaluate governance processes at the credit union as these areas were not included in the scope of the inspection. Specifically, FSRA staff did not collect any evidence related to one or more of the three main governance factors that are considered when determining the governance score for the Deposit Insurance Reserve Fund (DIRF) premium (i.e., FSRA's assessment of how the credit union's board operates, how the credit union's internal audit department and its board's audit committee function, and its processes related to the issuing and monitoring of loans to credit union members). • For instance, we found that in two inspections, there was no evidence that FSRA had conducted an assessment of the effectiveness of the credit union's internal audit practices. Without a complete governance evaluation, FSRA may end up with an inaccurate risk profile for these credit unions, putting consumer deposits at risk. • Furthermore, FSRA did not always assess restricted-party transactions (such as loans to officers or directors, their spouses, or to a corporation where an officer or director has more than 10% ownership) that are regulated under the <i>Credit Unions and Caisses Populaires Act, 2020</i> and require increased due diligence by a credit union's board. These types of transactions are required to be approved by a credit union's board; however, we found that FSRA did not require supporting documentation of approvals or board reviews. We also found that in four of five sampled credit union inspections with either poor governance practices or where FSRA identified a higher risk in the lending portfolio, FSRA did not perform any analyses of material restricted-party transactions.
<p>FSRA does not adequately ensure inspection findings are implemented by credit unions.</p>	<ul style="list-style-type: none"> • Prior to the introduction of the Risk-Based Supervisory Framework in April 2022 (see Section 5.1.1), when an inspection was completed, FSRA asked each credit union's board of directors to provide a written attestation to confirm the credit union has made, or will make, the necessary changes to address the inspection's findings. However, FSRA collected no supporting documentation to confirm whether an inspection finding was actually resolved. • In four of the 20 credit union inspections we reviewed, we found that an issue identified in a previous inspection had not been resolved by the time the next inspection was conducted, even though the board had provided a written attestation in each case that the necessary change had been made. FSRA has not taken any enforcement actions (such as levying an administrative monetary penalty) in these cases. For example, in 2018, FSRA's predecessor, the Deposit Insurance Corporation of Ontario (DICO) inspected a credit union and identified that there was no evidence of sufficient board oversight of the audit committee, including unfulfilled audit committee duties such as assessing the independence and effectiveness of the internal auditor. The credit union's board provided an attestation in December 2019 that all issues were addressed. However, FSRA found the same deficiency still present in its inspection of the credit union in 2021. • Furthermore, FSRA provides recommendations to issues identified in an inspection and asks credit unions to respond to inspection findings with an "Action Plan," but we noted that the information credit unions provided to FSRA on completion of an inspection was inconsistent and often very limited. In 12 of the 20 credit union inspections we reviewed, we found that the credit unions simply noted that the issue was resolved, copying the corrective action requirement noted by the FSRA inspector, but without any supporting documentation.

Weakness	Description and Findings
<p>Credit unions have little incentive to implement governance recommendations.</p>	<ul style="list-style-type: none"> • Credit unions are required to contribute into the DIRF based on a risk assessment conducted by FSRA. We found that the existing assessment process results in a credit union's governance practices (which comprise about 36% of the risk assessment rating) having much less of an impact on what the credit union contributes into the DIRF compared to the single factor assessment of a credit union's capital relative to the riskiness of the credit union's assets (which makes up about 64% of the rating and is called the "capital score"). • For example, to pay the lowest rate (0.75%) of insured deposits into the DIRF, credit unions need a score of 90% or higher. This means that those with the highest asset assessment score (full marks, or 64% of the rate score) only need to score 72% on their governance assessment to achieve the 90% threshold. Because so much weight is given to a single financial factor, credit unions with weak governance may not have a financial incentive to improve their governance practices. As discussed in Section 5.1.2, poor governance practices contributed to PACE Savings and Credit Union Limited ultimately being placed under the administration of the then-regulator, DICO. • In one case, we identified a credit union that FSRA had assessed in 2020 as having a perfect capital score but inadequate internal audit and risk management functions (such as the internal audit function not meeting professional standards, including a lack of risk identification processes and appropriate review of work completed by department staff). This resulted in the credit union paying a higher deposit insurance rate. Correcting the issue would only have saved the credit union \$22,000 annually. FSRA said if the credit union wanted to resolve the governance issues, it would have to overhaul its internal policies, including hiring competent internal auditors and new board members. The yearly cost to the credit union for the low governance score would likely be significantly less than the costs needed to actually resolve the inspection issues.
<p>FSRA has not performed inspections of credit unions within the frequency its policy targets.</p>	<ul style="list-style-type: none"> • In a July 2021 report, FSRA's senior staff in the credit union division presented a business case to the division's Executive Vice President for additional staff. The business case outlined the specific challenges related to credit union supervision and monitoring, noting the sector has become more complex after consolidations in the industry led to requirements for more experienced staff with specialized skills. However, the business case was not presented to FSRA's Chief Executive Officer and no formal assessment was conducted to determine the optimal number of staff for the division. • We found that the lack of supervisory staff (with expertise in credit unions), along with the impact of the COVID-19 pandemic, has led to a 60% decrease in the number of inspections conducted on credit unions, from 50 in 2017 to 20 in 2021 (see Figure 20). • Prior to April 2022, FSRA's policy was to perform an inspection to assess each credit union's governance practices every 20 to 36 months, depending on the credit union's size and risk profile. FSRA produces a schedule identifying which credit unions it will review each fiscal year. Based on FSRA's schedule as of June 30, 2022, FSRA will not be able to conduct an inspection of 14 (or 21%) of the 61 credit unions in Ontario within 36 months from the most recent inspection time frame. In 2022, these 14 credit unions held a total of about \$13.4 billion of insured deposits. One of the 14 had insured deposits of over \$11 billion, which means it is supposed to be inspected every 24 months. However, given the current schedule, the gap between inspections for this credit union is expected to be at least 40 months. As of April 2022, FSRA no longer uses the 36-month target inspection policy, but it is not yet clear how the target frequency will change under the RBSF as no new policy had been established at the time of our audit. • Furthermore, although FSRA anticipates it will conduct 15 inspections in the 2022/23 fiscal year, the actual number of inspections could well be less since as of June 30, 2022, FSRA assessed staffing levels based on inspector vacancies were at about 68% of the level it believes it needs to meet these targets.

Appendix 15: Ontario Defined Benefit Multi-Employer Pension Plans (DB MEPP) Solvency Funding, as of June 30, 2022

Source of data: Financial Services Regulatory Authority of Ontario

Plan Funded Ratio (%) [*]	Plans (#)	Total Members (#)	Members as a Percentage of All DB MEPP Members (%)
40-60	23	817,105	80
61-80	29	145,303	14
81-100	13	31,531	3
>100	7	33,845	3
Total	72	1,027,784	100

Note: Data is as of June 30, 2022 based on the most current data submitted by a pension plan to the Financial Services Regulatory Authority of Ontario at that time.

* Funded ratio represents the amount of assets a plan has as a percentage of the liabilities the plan would owe if it was wound up. A funded ratio of 100% would indicate that the plan has exactly enough assets to pay all plan liabilities.

Appendix 16: Comparison of Powers between FSRA and Other Pension Plan Regulators

Prepared by the Office of the Auditor General of Ontario

Power	Use in Other Jurisdiction(s)	Status in Ontario
The sponsor must inform the regulator about potentially harmful events.	<ul style="list-style-type: none"> In the US, the Pension Benefit Guaranty Corporation (PBGC) has an Early Warning Program for single-employer plans. Plan administrators and sponsors are required to notify the PBGC of certain events that may pose an increased risk to beneficiaries and the pension insurance system (such as a sponsor defaulting on a loan). When the PBGC is notified of such an event, it can then work with the sponsor to create financial protections for participants. For example, the sponsor may grant a lien on company assets to mitigate the risks associated with the event. 	<ul style="list-style-type: none"> Pension plan sponsors or administrators are not required to inform the Financial Services Regulatory Authority of Ontario (FSRA) of potentially detrimental events such as a sponsor defaulting on a loan, although the Pension Benefits Act includes an unproclaimed provision (s98.1) that would require certain events to be disclosed. The Ministry has indicated that a timeline for proclamation is not available at this time.
Regulators have greater access to employer/sponsor information.	<ul style="list-style-type: none"> The PBGC in the US has the authority to request additional information (beyond publicly available information and that which has already been provided via statutory filings) from pension plan administrators and/or plan sponsors. This includes information such as current and projected financial information related to the sponsor. The PBGC routinely enters into confidentiality agreements with sponsors to protect private business information. The regulator at the federal level in Canada, the Office of the Superintendent of Financial Institutions (OSFI), has the authority to obtain and review a plan sponsor's financial information, including the sponsor's financial statements. 	<ul style="list-style-type: none"> FSRA is limited to publicly available information related to the sponsor, making a full assessment of the sponsor's financial health difficult when the sponsor is privately owned and does not release financial statements publicly.
Regulators are able to work with plan sponsors in distress on payment plans.	<ul style="list-style-type: none"> OSFI can approve a declaration filed by a distressed plan sponsor to initiate the negotiation of payment plans with the sponsor to best support the plan and protect members. 	<ul style="list-style-type: none"> FSRA does not have such authority. Any such arrangements would require legislative or regulatory changes, which is a slow process hindering FSRA's ability to respond quickly in urgent situations.



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