



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

## 2022 Value-for-Money Audit

### Why we did this audit

- FSRA, is the primary regulator of non-securities related financial services in the Province, including the private passenger automobile insurance, credit union, and provincially registered pension plan sectors in Ontario.
- On June 8, 2019, FSRA took over duties from the Financial Services Commission of Ontario (FSCO) and the Deposit Insurance Corporation of Ontario after an expert panel recommended the creation of a more flexible and modern regulator for the Province's non-securities financial services and pension plan sectors.

### Why it matters

- Ontario has the highest average private passenger automobile insurance rates in the country.
- Failures by regulated entities can result in negative financial impact to Ontarians, including loss of deposits in credit unions and the loss of pension income.

### What we found

#### Taking Action on Past Report Recommendations and Implementing Initiatives from Other Jurisdictions May Reduce Cost of Private Passenger Auto Insurance

- Ontarians pay the highest premiums for private passenger automobile insurance in Canada, including when compared to provinces that also operate privately-delivered insurance sectors, such as Alberta and the Atlantic provinces.
  - The average private passenger automobile insurance premium increased almost 14% to \$1,642 between 2017 and 2021. Neither the Ministry of Finance (Ministry) nor FSRA has done significant work to address past recommendations to reduce costs, including standardizing medical care for accident victims and requiring accreditation for repair shops.
- The territorial framework used by FSRA that outlines how insurers can provide different private passenger automobile insurance premiums to individuals based on where they live in Ontario has not been updated since 2005. 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) driving the same automobile.
- FSRA requested additional authority from the Ministry, including the ability to collect details of fraudulent activity identified by automobile insurance companies, to better understand and be able to address these issues. The Ministry has only started to take action on these requests.

#### RECOMMENDATION 1-8

**Improvements Needed on Credit Union Inspections and Funding for Deposit Insurance Reserve Fund**

- FSRA did not identify and resolve credit union governance concerns in a timely manner. For example, FSRA did not always collect comprehensive evidence to evaluate key governance processes, or ensure that findings from its inspections had been addressed.
- FSRA has only just completed an independent inspection of the root cause of the issues at PACE Savings and Credit Union Limited (a credit union that was found to contravene legislation and engage in inappropriate activities, such as paying secret commissions to senior management) and action is still needed to implement changes to prevent similar issues from occurring at other credit unions.
- The Deposit Insurance Reserve Fund (DIRF), which serves as insurance to protect depositors' eligible deposits in the event of a credit union's insolvency, does not set fees for credit unions based on a comprehensive set of factors, and is funded at a lower rate than what FSRA targets. There has been limited communication of a 2018 legislative change that identified 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.

**RECOMMENDATION 9-12**

**Pension Plan Members May Be Unaware About the Risk That They Might Not Receive Their Full Targeted Pension Benefits, and Improvements in Sector Oversight Needed**

- FSRA and the Ministry have not clearly communicated the risk to over one million Ontarians who are members of multi-employer pension plans (MEPPs) that they may not receive their full targeted pension benefits. Around 2007, MEPPs were on average 93% funded on a solvency basis, but the Ministry changed the funding rules so that many MEPPs could choose to no longer be funded on a solvency basis. MEPPs currently have, on average, only 74% of the necessary assets to pay all future expenses.
- FSRA performs fewer inspections of pension plans than its predecessor, FSCO did. In the six years prior to its dissolution on June 8, 2019, FSCO performed about 55 on-site inspections of pension plans each year, whereas FSRA performed in-depth reviews of only 18 pension plans in 2021/22. FSRA's reviews did not verify the accuracy of information reported to them by pension plan administrators, despite FSCO doing this and finding that over a quarter of inspected plans reported inaccurate information.
- Over the past three fiscal years, about 718 pension plans submitted a total of 1,058 required filings late, each year. Despite having the regulatory authority to levy administrative monetary penalties; to date, FSRA has opted not to charge penalties of approximately \$47 million that it could have imposed against late filers.

**RECOMMENDATION 13-17**

**No Useful Performance Measures**

- 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.

**RECOMMENDATION 18**

**Conclusions**

FSRA needs to accelerate its efforts to fully protect consumers and contribute to public confidence in the private passenger automobile insurance, credit unions and provincially registered pension plans sectors. This includes:

- Take action in the private passenger automobile insurance sector to reduce the high cost of automobile insurance, for example, by working with the Ministry of Finance to implement treatment protocols to facilitate better care for automobile accident victims at a lower overall cost.
- Improve its inspection and investigation process in the credit union sector, by completing investigations within an established time frame, cover each key governance area of the credit union, and ensuring inspection findings are actually resolved.
- In the pension plan sector, work with the Ministry of Finance communicate to multi-employer pension plan members the potential risk of not receiving their full targeted pension benefits and that that this risk of not receiving their full targeted pension benefits is adequately disclosed to all such plan members.