

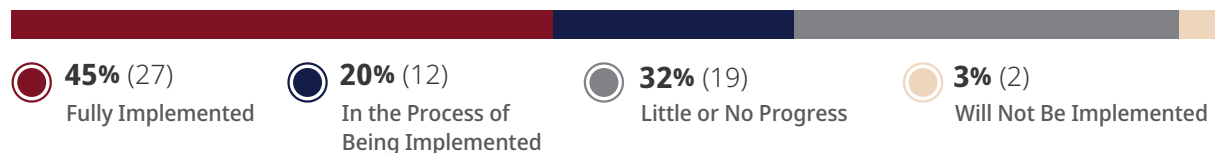
Follow-Up on the 2022 Performance Audit:

Ministry of Finance
Financial Services Regulatory Authority

Regulation of Private Passenger Automobile Insurance, Credit Unions and Pension Plans

// Overall Conclusion

60 Recommended Actions



The Ministry of Finance (Ministry) and the Financial Services Regulatory Authority of Ontario (FSRA), as of August 31, 2024, have fully implemented 45% of actions we recommended in our 2022 audit **Financial Services Regulatory Authority: Regulation of Private Passenger Automobile Insurance, Credit Unions and Pension Plans**. The Ministry and FSRA made progress in implementing an additional 20% of the recommended actions.

The Ministry and FSRA have fully implemented recommendations such as establishing an information-sharing agreement between FSRA and the Ministry of Transportation to collect data on how tow truck operators are involved in the automobile insurance system and the costs associated.

FSRA also started to regularly collect information to assess the key governance processes of credit unions, such as board operations, internal auditing and audit committee functions. This includes procedures related to issuing and monitoring loans. As part of its credit union inspections, FSRA now collects and reviews documentation to ensure that credit unions have implemented corrections addressing the issues identified in inspection results.

Additionally, to ensure pension plans comply with the *Pension Benefits Act*, protect member benefits and are well-administered, FSRA has introduced new inspection guidelines and processes for both defined benefit and defined contribution plans. These guidelines include verifying data in regulatory filings and identifying issues with member communications, governance and compliance.

However, the Ministry and FSRA have made little progress on 32% of the recommendations, including to work with relevant industry associations and ministries to develop an accreditation regime for automobile repair shops in Ontario, and require shop accreditation. As well, little progress was made 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. Additionally, ss. 98.1(1) Duty to Notify re Disclosable Event of the *Pension Benefits Act* remains unproclaimed; the amendment would require certain events to be disclosed to FSRA and allow for the negotiation of financial protections related to such events.

The status of actions taken on each of our recommendations is described in this report (see **Appendix** for more details).

// Status of Actions Taken on Recommendations

We conducted assurance work between April 2024 and August 2024. We obtained written representation from the Ministry of Finance and the Financial Services Regulatory Authority that effective October 3, 2024, they have provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

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

In our original audit, we found that 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 per year between 2017 and 2021. Neither the Ministry nor FSRA had 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 had 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. However, we found that the Ministry had only started to take action on these requests.

Recommendation 1: Action Items 1 and 2

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;

Status:  **Little or no progress.**

Details

We found that the Ministry led consultations with the automobile insurance sector in summer and fall 2023, during which it discussed various potential reforms to private automobile insurance. FSRA also participated in these consultations, but told us that the decision to implement any reforms ultimately rests with the government. Following the consultations, the Ministry outlined six initiatives to reform automobile insurance in the *2024 Ontario Budget*.

The Ministry plans to implement these initiatives in the coming years. However, these initiatives do not explicitly include the development and implementation of an updated program of care or the establishment of a centralized medical assessment process, as we recommended.

Recommendation 1: Action Item 3

- work with relevant industry associations and ministries to develop an accreditation regime for automobile repair shops in Ontario, and require shop accreditation;

Status:  **Little or no progress.**

Details

The Ministry informed us that it has been collaborating with the Ministry of Public and Business Service Delivery and Procurement (MPBSDP) and the Ministry of Transportation (MTO) to explore accreditation opportunities for automobile repair shops. The previous *Consumer Protection Act, 2002* did not grant MPBSDP the authority to implement a licensing or accreditation system for automobile repair shops in Ontario, nor does the newly enacted *Consumer Protection Act, 2023*. Additionally, the government did not include the regulation of automobile repair shops and collision reporting repair centres in the scope of the *Towing and Storage Safety and Enforcement Act, 2021*, and it has no plans to regulate these sectors under this Act. The Ministry told us it will continue to engage with MPBSDP and MTO.

Recommendation 1: Action Items 4 and 5

- 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.

Status:  **Fully implemented.**

Details

We found that MTO approved FSRA as an authorized data requester in January 2024. An agreement between FSRA and MTO was signed on April 29, 2024, and the first data transfer, which included some tow truck information, was completed at the end of July 2024. FSRA informed us that it is now in the process of evaluating the data to establish a process for monitoring trends among tow truck operators that are involved in automobile accidents.

Additionally, the *Towing and Storage Safety and Enforcement Act, 2021*, which received royal assent in June 2021, provided provincial oversight of the towing and vehicle storage sectors as of January 1, 2024. With the Act's final phase of implementation completed on July 1, 2024, tow truck drivers are required to obtain certification to continue operating. FSRA informed us that it will continue to take enforcement action against bad actors in the automobile insurance system within the bounds of its authority, when necessary.

In October 2023, FSRA took enforcement actions against a body shop and its employees by imposing fines and prohibiting the body shop from performing insurance claim repair work.

Recommendation 2: Action Items 1 and 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;

Status:  **Fully implemented.**

Details

The Ministry and FSRA have reviewed and prioritized the recommendations from previous reports on the reforms of the automobile insurance industry in Ontario, noted in **Appendix 9** of our audit in our *2022 Annual Report*, and considered them in developing the six initiatives to reform automobile insurance announced by the government in the *2024 Ontario Budget*. The Ministry expects to begin rolling out these initiatives within a few years. The Ministry and FSRA also stated that they will continue to incorporate recommendations from the previous reports in future efforts to improve the automobile insurance sector.

Recommendation 2: Action Item 3

- develop and execute on a plan to implement those recommendations.

Status:  **Little or no progress.**

Details

We found that neither the Ministry nor FSRA has set a timeline to develop and execute on a plan to implement the previous reports' specific recommendations on reforms of the automobile insurance industry in Ontario; however, the Ministry and FSRA did inform us that they will continue to consider recommendations from the Office of the Auditor General of Ontario as part of ongoing efforts to ensure the automobile insurance sector is modernized.

Recommendation 3: **Action Item 1**

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);

Status:  **Will not be implemented.**

The Office of the Auditor General of Ontario continues to support the implementation of this recommendation.

Details

The Ministry informed us that it does not plan to conduct a review to assess whether FSRA can better oversee more entities, including automobile repair shops in Ontario. The Ministry told us that the government's work on introducing the *Towing and Storage Safety and Enforcement Act, 2021* addressed the part of this recommendation that relates to tow truck operators.

Recommendation 3: **Action Item 2**

- 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;

Status:  **Fully implemented.**

Details

We found that the Ministry, in collaboration with FSRA, launched a new intake process for FSRA's legislative requests on May 1, 2023. This new intake process provides more structure and transparency to FSRA's requests for more legislative powers or authority, and is designed to

enhance team collaboration, clarify the information and lead time required for decision-making, and improve overall efficiency. Key features of this new process include a streamlined intake form and a standardized process that will improve the tracking and reporting of legislative requests. The Ministry received FSRA's first round of legislative requests under the new process on May 23, 2023.

Recommendation 3: Action Item 3

- prioritize the further review of FSRA's already proposed fraud reduction initiatives and recommendations, and if warranted, approve them.

Status:  **In the process of being implemented by winter 2026.**

Details

The Ministry informed us that it is considering FSRA's already proposed fraud-reduction initiatives and recommendations to determine their relevance and alignment with the government's policy objectives. This includes establishing a Fraud Reporting Service aimed at collecting automobile insurance fraud data from insurers that will quantify the amount of automobile insurance fraud in Ontario, create a baseline for fraud detection and identify trends throughout the industry. FSRA plans to begin developing the Fraud Reporting Service in summer 2025, with an anticipated implementation date of winter 2026.

Recommendation 4: Action Items 1, 2 and 3

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.

Status:  **In the process of being implemented by December 31, 2027.**

Details

We found that on April 29, 2024, RIBO published new mandatory disclosure guidance that clarifies brokers' and brokerages' obligations to disclose conflicts of interest according to section 14 (7.1) of Regulation 991 made under the *Registered Insurance Brokers Act*, as well as the RIBO Code of Conduct. This guidance also specifies that disclosures must be provided no later than when a client receives a quote. FSRA informed us that RIBO intends to enforce compliance with the guidance beginning October 1, 2024. As part of its 2024 statutory examination of RIBO, FSRA intends to review the new disclosure guidance along with how RIBO plans to supervise and enforce the guidance; it plans to subsequently follow up on RIBO's actual supervision and enforcement activities in future statutory examinations.

FSRA informed us that it also plans to review insurers' outsourcing relationships with P&C Managing General Agencies (MGAs) during 2024/25. Some of the insurers reviewed may outsource to MGAs with brokerage arms that interact directly with consumers. FSRA expects to publish its findings sometime in fall 2024, including sharing any relevant findings with RIBO.

We also found that as part of its 2023 statutory examination of RIBO, FSRA made three recommendations aimed at addressing the recommendations we made in our *2022 Annual Report*. FSRA recommended that RIBO:

- explore additional oversight measures that may be needed to ensure brokers/brokerages adequately disclose any conflict or potential conflict (including financial ownership by insurers) and compensation structures when transacting with consumers;
- consider mechanisms to collect and risk-assess data on commission structures with respect to automobile insurance transactions; and
- establish meaningful targets related to its supervisory reviews (spot checks) of brokerages and ensure that adequate supports (for example, resources) are available to achieve these targets within the context of its statutory mandate.

FSRA intends to review, as part of its 2024 statutory examination, RIBO's progress on implementing these recommendations, including requesting estimated completion dates from RIBO for any outstanding aspects of the recommendations. It also plans to review the work RIBO has completed on identifying sources of information regarding commission structures. FSRA intends to work with RIBO to determine an appropriate method and frequency for RIBO to report this information to FSRA for its review. Once this work is completed and RIBO has implemented the three

recommendations, FSRA plans to start reviewing the commission structure data during its annual examinations of RIBO. FSRA will then recommend that RIBO prioritize its inspections based on risk, which includes an assessment of the commission structure data collected and disclosures. FSRA expects this to happen sometime before the end of 2027.

FSRA will also start to risk-assess RIBO's proposed and implemented actions regarding their modernization of information systems. This, among other things, will support its transition to a risk-based approach for brokerage reviews. In turn, FSRA expects that this will influence RIBO's brokerage inspection targets. FSRA will review RIBO's progress on these changes as part of its 2024 statutory examination.

Recommendation 5: Action Item 1

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;

Status:  **Fully implemented.**

Details

We found that FSRA has determined to conduct reviews of unlicensed HSPs on a case-by-case basis only if its analysis of data from the Health Claims for Auto Insurance (HCAI) billing system identifies irregularities or if it receives public complaints about fraudulent or abusive conduct related to goods and services provided by an unlicensed HSP. FSRA informed us that unlicensed HSPs still represented a small percentage (0.28%) of all invoices processed through the HCAI billing system in 2022. As a result, FSRA determined that proactive reviews of unlicensed HSPs are not necessary.

Recommendation 5: Action Item 2

- return to on-site inspections of HSPs as soon as operationally possible;

Status:  **Fully implemented.**

Details

We found that in January 2023, FSRA began supplementing its virtual inspections with on-site inspections tailored to address specific risks that virtual inspections could not address. Between January 2023 and April 30, 2024, FSRA conducted 37 on-site inspections and 80 virtual inspections

of HSPs. Looking ahead, FSRA has indicated that its on-site inspections will primarily target higher-risk HSPs to ensure compliance with regulatory requirements.

Recommendation 5: Action Item 3

- 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.

Status:  **Fully implemented.**

Details

We found that as of October 2022, FSRA started requiring HSPs to initial next to each finding on inspection reports to confirm their understanding of the regulatory requirements. Additionally, HSPs must complete an attestation for each warning letter, verifying that they have addressed all issues identified during desk reviews or on-site inspections. FSRA also informed us that it uses identified risks and supplementary information, such as Health Claims Data, to determine whether follow-up examinations are needed. However, from the time of our 2022 audit until April 30, 2024, FSRA did not identify any instances that required follow-up inspections.

FSRA informed us that it will continue to monitor HSPs for compliance using several tools. These include the Professional Credential Tracker (to verify that the HCAI roster is current), the HSP's Annual Information Return, data from the Health Claims Database and information from Attestation forms. FSRA will use these resources to ensure compliance and take additional enforcement actions when necessary.

Recommendation 6: Action Items 1, 2, 3 and 4

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.

Status:  **Little or no progress.**

Details

FSRA informed us that it was in the process of analyzing treatment plan disputes that were referred to the LAT, and expects to complete this review by March 2025. FSRA also informed us that it has engaged with Tribunals Ontario to update their existing information-sharing agreement to support FSRA's review. By March 2026, FSRA expects to expand its quarterly analysis of data from LAT to identify insurance companies that may be disproportionately represented at the Tribunal, relative to their market size, and to determine the most frequently disputed types of claims. Once this analysis is complete, FSRA plans to follow up on the market conduct of insurance companies with a high number of LAT disputes and investigate the common reasons behind these disputes by March 31, 2027.

Recommendation 7: Action Items 1, 2 and 3

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 watchlist), 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.

Status:  **Little or no progress.**

Details

FSRA informed us that it was in the process of procuring an advisory services firm to conduct market research and recommend technology solutions, and to help procure a new licensing system. This system will be designed to enhance information capture and incorporate improved controls and automation to prevent ineligible or unsuitable individuals from obtaining licences. As part of this process, FSRA also plans to review the current licensing requirement with internal staff and external stakeholders. FSRA anticipates that the new system will be operational by March 2028, subject to detailed planning with the implementation company.

Following the implementation of this system, FSRA plans to introduce mandatory criminal record checks during the licensing renewal process for insurance agents. FSRA estimates that it will take an additional 10 months after the new system is implemented to fully implement the criminal record checks.

Recommendation 8: Action Items 1 and 2

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;

Status:  **Little or no progress.**

Details

We found that during 2023 and in early 2024, FSRA reviewed certain rating variables, namely territory- and credit-based insurance scores (the latter is prohibited for auto insurance in Ontario) that insurers use to determine premiums and analyzed the impact of removing or changing existing rate variables in insurance premium calculations. FSRA informed us that it is developing a strategy to reform automobile insurance rating and underwriting regulations that aims to set regulatory expectations for achieving fairness for consumers. FSRA expects to complete the first phase of work related to the strategy by March 2025.

Recommendation 8: Action Items 3, 4, 5 and 6

- 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.

Status:  **Fully implemented.**

Details

We found that an external consultant completed two reviews on territory studies for FSRA. The first review was published on FSRA's website in December 2022, and the second followed in December 2023. FSRA shared the results with the Ministry on August 2, 2023. The consultant recommended that eliminating existing territorial constraints could improve rating accuracy and reduce subsidization of insurance premiums. Following these recommendations, FSRA began testing territory rating changes in the Greater Toronto Area (GTA) for personal passenger automobile insurance. The GTA was selected as the test region because, according to FSRA, territory rating issues are largely limited to this region, and it would increase insurers' participation, especially small insurers that only offer coverage in the GTA. Starting January 3, 2024, FSRA allowed insurers to implement territory rating changes in the GTA; as of the end of July 2024, FSRA approved 10 insurer applications for territory rating changes in the GTA.

2. Credit Union Sector Oversight Needs Improvement

In our original audit, we found that 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 had 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), but had not implemented any changes to prevent similar issues from occurring at other credit unions.

We also found that the Deposit Insurance Reserve Fund (DIRF), which serves as insurance to protect depositors' eligible deposits in the event of a credit union's insolvency, did not set fees for credit

unions based on a comprehensive set of factors, and was funded at a lower rate than what FSRA targeted. Also, there had been limited communication of a 2018 legislative change that identified that insured deposits could only be claimed by depositors up to the total value of assets available in the DIRF, so existing credit union members would likely be surprised to learn that their deposits may not be fully protected in certain scenarios where the DIRF is insufficiently funded.

Recommendation 9: Action Items 1 and 2

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;

Status:  **Fully implemented.**

Details

We found that, since April 2022, FSRA has been conducting credit union assessments according to its Risk Based Supervisory Framework (RBSF) for Credit Unions. FSRA informed us that it continues to prioritize and regularly collect information to assess all key governance processes of credit unions as part of its supervisory assessments. By December 2023, FSRA had completed the RBSF Operational Manual and all supervisory staff had been trained on the new assessment process. The manual provides detailed procedural guidance on supervisory processes and practices to implement the RBSF.

In May 2024, FSRA also established a new process for collecting and reviewing documentation to ensure that credit unions have corrected the issues FSRA identified through its supervisory work. While this information is stored along with other assessment documents, FSRA launched a dedicated system on August 1, 2024, to help it monitor the credit unions' action plans and remediation progress.

Recommendation 9: Action Item 3

- levy penalties for credit unions that provide inaccurate or misleading information on actions taken to address inspection findings;

Status:  **Fully implemented.**

Details

We found that FSRA has developed a system of monetary penalties for credit unions that provide inaccurate or misleading information about the corrective actions they have taken to address supervisory assessment findings. On May 31, 2023, FSRA completed its consultation on proposed guidance for administrative monetary penalties. On March 11, 2024, FSRA published its *Enforcement: General Administrative Monetary Penalties Guidance*, which sets out how FSRA interprets and applies the law when it imposes general administrative monetary penalties and how it determines the appropriate penalty amounts.

Recommendation 9: Action Item 4

- 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;

Status:  **Fully implemented.**

Details

We found that in 2023, FSRA revised the differential premium score methodology used to calculate the deposit insurance rates that credit unions are required to contribute to the DIRF. The new methodology expands the scope of measuring the riskiness of the credit union by including the risk ratings from assessments under the RBSF (introduced in April 2022), and includes capital metrics that are consistent with FSRA's Capital Adequacy Rule. The new methodology was introduced on December 31, 2023.

Recommendation 9: Action Items 5 and 6

- 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.

Status:  **Fully implemented.**

Details

Under the Risk Based Supervisory Framework for Credit Unions, FSRA transitioned from a fixed frequency of credit union assessments to a risk-based schedule. Consequently, FSRA has redefined the roles and responsibilities of its staff involved in inspections and confirmed that it possesses the optimal number of qualified staff to conduct all necessary inspections under the new framework.

Recommendation 10: Action Item 1

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.

Status:  **In the process of being implemented by March 2025.**

Details

We found that FSRA was making changes based on the findings of its root cause analysis report from October 2022. Notably, 11 of the 12 recommendations from that report have been addressed. For example:

- In August 2023, FSRA updated its Supervision and Administration Operational Manuals. By December 2023, it had finalized the Risk Based Supervisory Framework – Credit Unions Operational Manual and conducted training sessions on the new methodologies and templates outlined in the manual.
- In May 2024, FSRA established a new process to collect and review documentation showing that credit unions have implemented corrective actions in response to issues identified through supervisory work. Training for its supervisory staff on this new process took place on July 31, 2024, which is a component of the RBSF.

FSRA plans to address the last outstanding recommendation by March 2025, and to assess the extent to which the risk rating methodology successfully identified instances of elevated risk.

Recommendation 11: Action Item 1

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;

Status:  **Fully implemented.**

Details

We found that FSRA has developed a new Differential Premium Score Determination methodology that integrates risk ratings from the RBSF as well as additional quantitative financial metrics. Under this new approach, when determining a credit union's Overall Risk Rating under the RBSF, FSRA now also calculates and assesses various quantitative financial metrics, including liquidity ratios; earnings; lending portfolio metrics such as total debt service ratio, gross debt service ratio, delinquencies and loan losses; as well as a comparative analysis of balance sheets and income statements. The new DIRF insurance premium calculation methodology came into effect on December 31, 2023.

Recommendation 11: Action Item 2

- identify under what circumstances the Province would provide funding to cover DIRF claims that exceed the assets of the DIRF;

Status:  **In the process of being implemented by March 2025.**

Details

The Ministry informed us that it is actively analyzing scenarios under which FSRA, through its access to the Bank of Canada Emergency Lending Assistance facility, would provide financial support for DIRF claims that exceed the fund's assets. The Ministry expects to complete this work by March 2025.

Recommendation 11: Action Item 3

- regularly assess if insurance premiums are sufficient to keep the DIRF at a level of funding comparable with that in other provinces.

Status:  **Will not be implemented.**

Details

FSRA told us it will not implement this recommendation because comparing the DIRF's funding level to that in other provinces does not account for differences in the credit union systems. Instead, FSRA will determine the appropriate target for the DIRF based on the results of scenario-based stress testing of the Ontario credit union system.

Recommendation 12: Action Item 1

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.

Status:  **Fully implemented.**

Details

We found that in August 2022, FSRA updated its deposit insurance brochures and website to include information on the limitations of deposit insurance coverage. FSRA electronically distributed these updated brochures to all Ontario credit unions, which were then required to distribute them to their members.

3. Improvements Needed to Sector Oversight by FSRA

In our original audit, we found that FSRA and the Ministry had 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. At the time of our audit, MEPPs had, on average, only 74% of the necessary assets to pay all future expenses.

Also, FSRA performed fewer inspections of pension plans than its predecessor, the Financial Services Commission of Ontario (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.

We also found that, in each of the three fiscal years from 2019/20 to 2021/22, about 718 pension plans submitted a total of 1,058 required filings late, each year. However, despite having the regulatory authority to levy administrative monetary penalties, FSRA opted not to charge penalties of approximately \$47 million that it could have imposed against late filers.

Also, FSRA did 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 13: Action Item 1

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;

Status:  **Fully implemented.**

Details

We found that, since our 2022 audit, FSRA conducted a benchmarking exercise with each of the 67 MEPPs in Ontario. This exercise aimed to evaluate the extent to which MEPPs adhere to established leading practices, and involved meeting with representatives from all MEPPs and analyzing their survey responses.

Recommendation 13: Action Item 2

- complete the MEPP benchmarking exercise and act on any rule changes or other remedies deemed as needed;

Status:  **In the process of being implemented by March 31, 2025.**

Details

In August 2024, FSRA published a report summarizing the results of the MEPP benchmarking exercise. The results of this exercise are aligned with the Ontario Ministry of Finance's proposal for a permanent framework for target benefit pension plans. Beyond the new legislation or regulations to come into force as part of this new Target Benefit Framework, FSRA does not plan to consider any further rule changes or remedies at this time. As of August 31, 2024, FSRA began drafting a

Supervisory Guidance document to support the Ministry's proposed regulations necessary for implementing a permanent framework for target benefit pension plans in Ontario. FSRA expects this Supervisory Guidance to be implemented by March 31, 2025.

Recommendation 13: Action Item 3

- 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*.

Status:  **In the process of being implemented by January 2025.**

Details

We found that during spring and fall 2023, the Ministry engaged with MEPPs regarding proposals for a permanent framework for target benefit plans. These proposals included measures concerning member disclosures. The *2024 Ontario Budget* included an update on the progress toward establishing this permanent framework, with a planned implementation date of January 1, 2025. At the time of our follow-up, the Ministry was developing the necessary regulations to implement this framework, which will incorporate specific regulations regarding disclosures to members.

Recommendation 14: Action Item 1

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;

Status:  **Fully implemented.**

Details

We found that in 2023, FSRA completed a pilot of its new inspection framework for pension plans. During the pilot, FSRA inspected 15 different pension plans, which varied in terms of asset size and the number of members.

Recommendation 14: Action Item 2

- 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.

Status:  **Fully implemented.**

Details

We found that FSRA began using a new process to inspect both types of pension plans (defined benefit and defined contribution) on April 1, 2024. The new inspection process involves assessing various risks including compliance with regulatory filings. In addition, as part of a preliminary risk assessment of a pension plan, inspectors look for insufficient member communications, governance and compliance issues, and any other relevant risk factors it learned through its pilot project for pension plan inspections. On May 16, 2024, FSRA hosted a webinar to introduce pension stakeholders to its new inspection process, and on July 31, 2024, it posted detailed materials on its website about the process. FSRA informed us that it currently employs a team of eight individuals to inspect pension plans, a number it considers adequate to meet the demands of the new inspection process.

Recommendation 15: Action Items 1 and 2

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;
- develop a plan to improve pension plan administrators' compliance with information submission deadlines;

Status:  **In the process of being implemented by fall 2025.**

Details

We found that FSRA has taken steps to automate its process for handling regulatory submissions from pension plans as part of its plan to improve pension plan administrators' compliance with information submission deadlines. Beginning on March 31, 2023, FSRA's information system

started automatically sending out the first and second late filing notices to pension plans. Further automation was implemented on May 11, 2023, when the system began to automatically approve extended filing deadlines, in accordance with the regulations. Additionally, FSRA has enhanced its system to automatically send filing reminders to all pension plan administrators, regardless of whether they had already commenced the filing process. This was a departure from the previous protocol where reminders were not sent if a filing had been initiated. On May 11, 2023, FSRA updated its system interface to display all outstanding filings first rather than categorizing them across several pages, where administrators could overlook them.

FSRA informed us that it is assessing whether it can enable the system to automatically identify missed reporting deadlines and send notifications to FSRA staff. If the automated notification is feasible, it is scheduled to be completed by fall 2025. Currently, FSRA's existing system does not support sending internal push notifications.

Recommendation 15: Action Items 3 and 4

- 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.

Status:  **Fully implemented.**

Details

We found that since our 2022 audit, FSRA has updated its enforcement action guidelines. Starting on October 24, 2022, according to the updated guidelines, FSRA began initiating enforcement actions against pension plan administrators who miss information filing deadlines. As a result, it has imposed financial fines on nine pension administrators for late filings. Additionally, as of March 31, 2023, FSRA has proactively reached out to 254 defined contribution (DC) pension plans to understand the reasons behind their late filings and to educate them about their filing obligations. In efforts to educate the plan administrators, FSRA also developed an at-a-glance document that outlines the DC pension plan administrator's responsibilities. In 2023, FSRA mailed this document to all the DC pension plans it regulates, and provided it to insurance companies to distribute to their clients with an Ontario DC plan; FSRA also posted the document on its website.

Recommendation 16: Action Items 1, 2 and 3

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 (ss. 98.1(1) Duty to Notify re Disclosable Event) of the *Pension Benefits 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.

Status:  **Little or no progress.**

Details

The Ministry informed us that it is collaborating with FSRA to assess the broader implications of proclaiming Section 98.1. Additionally, they are working together to identify any gaps in FSRA's current supervisory framework. However, the Ministry was unable to provide a timeline for when the Act would be proclaimed. The Ministry also informed us that it is reviewing FSRA's requests for greater access to plan sponsor information, and for the authority to collaborate with plan sponsors on payment plans without necessitating legislative or regulatory changes. The Ministry aims to complete its review by March 2025, at which point it will determine the next steps.

Recommendation 17: Action Items 1 and 2

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;

Status:  **Fully implemented.**

Details

We found that in fall 2021, FSRA began working on a funding target for the PBGF. The initial step was completed on March 31, 2023, when FSRA finalized the modelling and testing of PBGF's financial outlook. This analysis assumed no changes in assessments and benefits coverage and explored various what-if scenarios. In fall 2023, FSRA's model was successfully audited by an external firm. The results of this work informed the development of a risk appetite statement for PBGF, which includes a funding target and was approved by the PBGF administrator (FSRA's CEO) on October 12, 2023, and supported by the FSRA Statutory Funds Advisory Committee of the Board.

As of the most recent assessment (March 31, 2024), the PBGF is funded above its target. FSRA informed us that establishing mitigating actions when the fund falls short of the target depends on the Ministry's decisions regarding any related assessment and benefit policies, including whether there should be a change in benefits covered by the PBGF or increased assessments paid by sponsors of the plans covered by the PBGF, amongst other options.

Recommendation 17: Action Items 3, 4 and 5

- 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.

Status:  **Little or no progress.**

The Ministry informed us that during the next legislated review of the PBGF, it will consider the work completed by FSRA. The remaining recommendations (assess whether the PBGF's oversight and operating structure is effective, assess what coverage the fund should provide and update the framework accordingly) are being considered as the Ministry develops the scope of the next legislated review, scheduled for 2026.

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

Recommendation 18: Action Items 1 and 2

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.






Status:  **In the process of being implemented by April 1, 2025**

Details

We found that since the 2022 audit, FSRA has developed 28 draft performance measures, of which 22 have been accepted through internal beta testing. The 22 performance measures include four that are specifically related to sectors including HSPs, pensions and credit unions, among others. FSRA informed us that it plans to consult with its stakeholders during the fiscal year 2024/25 to assess whether these draft measures and targets are meaningful and appropriately calibrated with the approach of a principles-based regulator.

// Appendix

Recommendation Status Overview

	# of Action Items	Fully Implemented 	In the Process of Being Implemented 	Little or No Progress 	Will Not Be Implemented 	No Longer Applicable 
Recommendation 1	5	2		3		
Recommendation 2	3	2		1		
Recommendation 3	3	1	1		1	
Recommendation 4	3		3			
Recommendation 5	3	3				
Recommendation 6	4			4		
Recommendation 7	3			3		
Recommendation 8	6	4		2		
Recommendation 9	6	6				
Recommendation 10	1		1			
Recommendation 11	3	1	1		1	
Recommendation 12	1	1				
Recommendation 13	3	1	2			
Recommendation 14	2	2				
Recommendation 15	4	2	2			
Recommendation 16	3			3		
Recommendation 17	5	2		3		
Recommendation 18	2		2			
Total	60	27	12	19	2	0
%	100	45	20	32	3	0