



Financial
Institutions
Commission

Insurance Fees

Consultation Paper

June 2019

I. Introduction

The Financial Institutions Commission (FICOM) safeguards confidence and stability in British Columbia's (BC) financial sector by protecting consumers from undue loss and unfair market conduct. Under the *Financial Institutions Act* (FIA) and *Insurance Act*, FICOM is tasked with authorizing and regulating insurance companies and extra-provincial insurance corporations operating in BC (hereafter referred to collectively as insurers). FICOM provides both solvency and market conduct oversight of insurers and deals with unlicensed activity in the BC market.

We are asking stakeholders to review and comment on FICOM's proposal for a new regulatory fee structure for the insurance industry in BC. As part of this process, FICOM is launching a consultation to gather industry feedback regarding the proposed fee changes. Instructions for providing input can be found in Section VIII below.

For clarity, the proposed fee changes do not apply to insurance agents, salespeople, and adjusters, who are regulated by the Insurance Council of British Columbia. Changes to the fee structure for Trust companies, Captive Insurance companies or Reciprocal Exchanges that conduct business in BC will be reviewed at a future date.

II. Rationale

The BC Government has passed legislation establishing FICOM as an independent Crown agency to be known as the BC Financial Services Authority (BCFSA) with its own governing Board of Directors.

The BC Government has directed the BCFSA's operations to be self-funded from fees assessed to the financial services entities it regulates. Government has committed funding beginning in FY19/20 to help with the transition and to ensure regulated sectors are self-funded by FY21/22. The BC Government has retained the authority to approve any changes to the existing fee structure for the BCFSA. Therefore, FICOM's consultation to gather industry feedback regarding the proposed fee changes will be included in a submission to Treasury Board requesting approval. Cabinet approval is required to implement fee changes through regulation.

The current fee methodology has been in place since 1990. This has resulted in a situation where collected fees have not kept pace with changes in the Consumer Price Index or increases in the costs of providing adequate oversight to an industry which continues to grow

in size and complexity. To cover the increased cost of regulation and to ensure regulated sectors are self-funded by FY21/22, FICOM is proposing a new regulatory fee structure to maintain and strengthen the regulatory framework for insurance in BC.

III. Regulatory Objectives

The objective of the Superintendent of Financial Institutions is to facilitate and promote an efficient and effective insurance market in BC that protects the rights and interests of British Columbians. The Superintendent achieves those objectives by:

- providing consent for the incorporation or authorization of an insurance company following assessment of the proposed business plan and the financial and management capabilities of the applicant(s);
- providing consent for major transactions such as amalgamations, acquisition or disposition of significant assets, revocations, wind-up, continuance, etc.;
- ongoing monitoring of insurers' solvency and financial stability;
- processing and administering regulatory filings;
- monitoring insurers for any violations of fair business practices such as mis-selling, unfair or misleading contracts, coercive sales tactics, etc.;
- ensuring that no unauthorized insurance business takes place in BC;
- ensuring that no unlicensed insurance agents, adjusters, and salespeople operate in BC;
- providing regulatory advisories (guidance, bulletins etc.); and
- collaborating with other regulators on common issues.

IV. Principles for Developing Fees

In developing fee proposals, FICOM has committed to the following principles:

1. **Simplicity**
 - i. Fees are easy to calculate
 - ii. Fees have a low administrative burden

2. **Fairness**
 - i. Regulated sectors are self-funded
 - ii. Regulatory oversight costs are proportional to business activity and size
 - iii. Common costs are reasonably allocated

3. Service Commitment

- i. Fees support regulatory objectives
- ii. Fees enable the hiring and retention of highly skilled staff
- iii. Fees facilitate investments in IT infrastructure

4. Transparency

- i. Cost data is provided

5. Competitiveness

- i. Fees are predictable year-over-year
- ii. Fees are comparable fees with other Canadian jurisdictions

V. Proposed Changes to Fee Model

The current fee assessment model is based on an insurer's assets, with provincially incorporated insurance companies and extra-provincial insurance corporations subject to a different formula. The fee structure is not easy to understand and is difficult to compare fees between provincially incorporated and extra-provincial insurance corporations. In the nearly four decades since the fee structure was last reviewed, the financial marketplace has become more complex and the scope of regulatory responsibilities has expanded significantly under a risk-based approach. Changes include:

- Increasingly complex cross-provincial border enforcement;
- Emergence of new distribution and marketing schemes;
- Creation on new products and hybrid products;
- Rapid financial technology (fintech) innovation; and
- An increase in cyber risk.

The BCFSA needs to continue to respond to the challenges by:

- Recruiting qualified professionals with financial sector experience to sustain the intensity of its regulatory oversight of BC insurers. FICOM's supervisory framework aligns with international best practices, and is comprised of both continuous monitoring and onsite work that is tailored to the size and risk profile of an insurer;
- Applying appropriate due diligence to new business proposals to ensure the interests of British Columbians are protected; and

- Strengthening the market conduct oversight of all insurers in BC, in response to public expectations and national and international regulatory standards. Investments in investigative and examinations capabilities will proactively identify and address conduct that places consumers at risk

FICOM is proposing a new formula for calculating the annual fee for all insurers. The provincial insurance company annual fee and extraprovincial insurance corporation fee will be combined into one fee for all insurers in recognition that both types of insurers benefit from a well-regulated marketplace. The revised fee will incorporate a new factor - the volume of insurance business each insurer undertakes in BC (premiums written), which is a better proxy for allocating the regulatory oversight costs to each institution.

Fee Name	Current Fees	NEW (2020/21)	
Insurance Company Annual Fees	\$500 + 0.013% of assets less than or equal to \$25 million + 0.01% of assets between \$25 and \$250 million + 0.008% of assets greater than \$250 million	Total Non-consolidated Assets	Annual Fee
Extraprovincial Insurance Corporation Annual Fees	Total Non-consolidated Assets	Annual Fee	
	\$5 million or less	\$1,500	
	Greater than \$5 million to \$50 million	\$2,750	
	Greater than \$50 million to \$100 million	\$3,750	
	Greater than \$100 million to \$500 million	\$4,750	
	Greater than \$500 to \$1 billion	\$5,750	
	Greater than \$1 billion to \$5 billion	\$7,750	
	Greater than \$5 billion	\$9,750 + \$1000 per each \$1 billion over \$5 billion	
	\$100 million or less	\$5,000 + 0.019% of Direct Premiums in BC	
Greater than \$100 million to \$1 billion	\$7,500 + 0.019% of Direct Premiums in BC		
Greater than \$1 billion	\$10,000 + 0.019% of Direct Premiums in BC		

When exploring alternative methods to calculate a more appropriate fee, FICOM considered a fee based on an insurer's share of total capital (the federal Office of the Superintendent of Financial Institutions (OSFI) uses this approach); however, it was felt that capital, similar to asset size, did not accurately reflect insurance business in the province or premiums written by each insurer.

In the future, the regulator plans to revisit the fees levied on insurers on a more regular basis to ensure that fees are aligned with changes in regulatory costs. Prior to any change to fees, the BCFSa will conduct a public consultation to ensure that stakeholders have an opportunity to present their views to the regulator.

The BCFSa will budget for a modest surplus which would be retained at year-end and reinvested in the program area the following year. The BCFSa will not adjust future year assessments or return fees to insurers in the event of a surplus.

FICOM is aware that the International Financial Reporting Standards (IFRS) 17 standard for insurance contracts would change the way direct premiums are reported by insurers. Until such changes are implemented, direct premiums are the best indicator of an insurer's business activity in the province. The BCFSa will examine the utility of using other reporting metrics once there is more certainty around the implementation date of IFRS 17 in Canada.

VI. Analysis

The proposed fee methodology reflects FICOM's principles for developing fees. In particular:

1. Simplicity

- The fee is easy to calculate. The proposed annual fee is based on a flat fee based on the company's non-consolidated assets plus a percentage of direct premiums written in BC. Insurers already provide these figures for their regulatory filings so there is a low administrative burden for computing the fees. Further, there would be a low administrative burden on the BCFSa to validate the fee amounts.
- The proposed fee model consolidates asset size groupings (from seven to three) for both provincially incorporated and extra-provincial insurance corporations.

2. Fairness

- The value of premiums written in the province is a better proxy than asset size or capital for allocating regulatory oversight costs to each institution since it reflects business activity in BC instead of assets that are located outside of BC and Canada.
- Provincially incorporated and extra-provincial insurance corporations are subject to the same fee model, based on the amount of business conducted in BC.

3. Service Commitment

- Fees generated under the proposed model will support the BCFSa in enhancing its regulatory approach, including:
 - due diligence on approval and authorization that is timely, to facilitate industry expansion in BC, and complete, to proactively protect consumers;
 - continuous alignment with national and international solvency and market conduct regulatory best practices;
 - investing in consumer protection capabilities (investigators, market conduct examiners, consumer education);
 - hiring highly skilled staff with industry experience;
 - investing in IT infrastructure to support more efficient and user-friendly interactions between insurers and the regulator; and,
 - enhancing FICOM's capacity to proactively identify and address risks through improved solvency and market conduct risk analysis;
- The proposed fee increase will minimize the risk of regulatory services being undermined and ineffective from lack of funding.
- A well-regulated marketplace enhances industry's reputation. All insurers have a vested interest in an appropriately resourced regulator overseeing their activities.

4. Transparency

- The BCFSa will report on its activities in its annual Service Plan and publish financial statements annually with the aim of enhancing transparency.
- Fees from the insurance sector have covered a decreasing percentage of costs of regulating the insurance industry over time.
- The Service Commitments outlined above (initiated by FICOM beginning in FY17/18) will require the BCFSa to continue to make strategic investments in people and technology, including additional market conduct capacity and IT

infrastructure that supports regulatory efficiencies and increases the user-experience.

- The historical and projected program costs are provided below:

(all values in \$millions)	FY16/17	FY17/18	FY18/19	FY19/20 Projection	FY20/21 Projection	FY21/22 Projection	FY22/23 Projection
Annual Cost of Insurance Program	\$3.3	\$3.9	\$5.0	\$4.8	\$5.1	\$5.4	\$5.3
- Salaries & Benefits	\$2.2	\$2.8	\$3.7	\$3.2	\$3.8	\$4.0	\$4.0
- Professional & Legal Services	\$0.4	\$0.2	\$0.3	\$0.7	\$0.5	\$0.5	\$0.5
- Other Costs	\$0.7	\$0.9	\$1.0	\$0.9	\$0.8	\$0.9	\$0.8
Costs Recovered Under Current Fees	\$3.3	\$3.3	\$3.4	\$3.4	\$3.4	\$3.4	\$3.5
Net Surplus/(Loss)	\$0	(\$0.6)	(\$1.6)	(\$1.4)	(\$1.7)	(\$2.0)	(\$1.8)
Additional Costs Recovered by New Fee	N/A	N/A	N/A	N/A	\$1.6	\$2.2	\$2.2
Overall Net Surplus/(Loss)	\$0	(\$0.6)	(\$1.6)	(\$1.4)	(\$0.1)	\$0.2	\$0.4
% of Costs Recovered (Current Fee Model)	100%	85%	68%	71%	67%	63%	66%
% of Costs Recovered (Proposed Fee Model)	N/A	N/A	N/A	N/A	98%	104%	108%
Full-Time Equivalent (FTEs)	25	26	34	32	34	35	34

- The increase staffing capacity from FY 16/17 to FY 19/20 is the result of filling previous vacancies. These FTEs were allocated between supervision, approvals, policy, corporate services and market conduct to support the in-year service commitments outlined above.
- Increases in FTEs after FY 19/20 are due in part to FICOM's commitment to support the Canadian Council of Insurance Regulators' cooperative supervisory framework on market conduct. These resource enhancements will benefit all insurers.
- Under the proposed structure the ratio of provincial insurance companies' fees to extra-provincial insurance corporations' fees is only slightly changed, with extra-provincial insurance corporations still contributing the most to the cost of insurance regulation which is in line with their overall market share.

Type of Institution	#	Old Annual Fees			New Annual Fees (2020/21)			Overall Revenue Increase
		Revenue (\$millions)	%	Avg.	Revenue (\$millions)	%	Avg.	
Provincial Insurance Companies	8	\$0.15	6.7	\$18,485	\$0.17	3.9	\$21,662	17.2%
Extra-provincial Insurance Corporations	209	\$2.06	93.3	\$9,853	\$4.28	96.1	\$20,459	107.6%
Total	217	\$2.21*	100.0	\$10,171	\$4.45*	100.0	\$20,504	101.6%

*Revenues exclude insurance council fees

5. Competitiveness

- The proposed annual fees are compared to the fees/assessments of other jurisdictions within Canada below.

Fee	BC current fee (average)	BC new fee (average)	Alberta	Quebec	Federal (OSFI) (approx.)
Insurer Annual Fees	\$10,171	\$20,504	\$12,850	\$53,026	\$163,725

- Note that the cost recovery of different jurisdictions for similar regulatory services is calculated in various ways. Some jurisdictions include automobile rate review services and licensing of insurance agencies (Alberta, Ontario and Quebec) while BC does not. In Ontario, the Financial Services Regulatory Authority (FSRA) has issued a [fee rule](#) that requires approval from the Minister of Finance.
- The Insurance Council of British Columbia will continue to be responsible for determining the fees that apply to insurance agents, adjusters, and salespeople. The Council provides funding to FICOM to support integrated regulation of insurance companies and intermediaries in BC, including FICOM's regulation of unlicensed insurance agent, adjuster, and salesperson activity.

- Most jurisdictions allocate fees according to the proportion of premiums written in their province or jurisdiction. However, the federal government (OSFI) allocates its fees by the capital available and has a special surcharge if the institution is under any remediation action. OSFI's scope of regulation and supervision does not include consumer-related or market conduct issues.

VII. Conclusion

In order to ensure that the BCFSA is adequately funded, changes to the fee structure will need to be implemented for collection starting in the 2020/21 financial year. The proposed revised fee structure will allow the new organization to invest in the necessary capabilities it requires in order to meet its mandate that includes exercising rule-making authority, new fair treatment of consumer expectations, more transparency and the requirement to collect and publish certain financial and risk information. FICOM believes that moving to a structure that sets a variable baseline fee that also incorporates a factor that recognizes the amount of market activity being conducted by an insurer aligns with the principles set out above and also better reflects the fairness to those entities previously not conducting much business in the province but with significant asset sizes. A well-regulated marketplace enhances industry's reputation. All insurers have a vested interest in an appropriately resourced regulator overseeing their activities.

VIII. Questions

Some questions for consideration include:

- Do you have any concerns with the proposed fee schedule?
- Are there any other fee options you would like to be considered?
- Are there any other service commitments you would like to see from the BCFSA?

IX. How to Provide Input

Written comments should be submitted by July 24, 2019, either via email to feedback@ficombc.ca or via mail to:

Insurance Fees Consultation
Financial Institutions Commission

2800-555 West Hastings St.
Vancouver, BC V6B 4N6

A copy of this consultation document can be reviewed online at www.fic.gov.bc.ca.

Responses may be made public. Please note that all submissions received are subject to the *Freedom of Information and Protection of Privacy Act*.