TTC INSURANCE COMPANY LIMITED
REPORT NO.

MEETING DATE: June 21, 2012

SUBJECT: PROPOSED SOLVENCY REFORMS

INFORMATION ITEM

RECOMMENDATION

It is recommended that the Board of Directors receive this report with respect to the Financial Services Commission of Ontario (FSCO) proposed changes to the solvency regime in the Province of Ontario for information.

BACKGROUND

At the request of FSCO, staff met with representatives of FSCO on March 2nd, 2012 to discuss the upcoming changes with respect to the solvency regime in Ontario.

Staff was advised that the Federal Government (through the Office of the Superintendent of Financial Institutions) has mandated the adoption of new International Association of Insurance Standards (IAIS) which will apply to all insurance companies in Canada. Of the 351 insurance companies licensed in Ontario, most are federally regulated, some are incorporated in other provinces and only 7 are property & casualty insurance companies incorporated in Ontario – one of which is Toronto Transit Commission Insurance Company Limited (TTCICL). FSCO is exploring whether it makes sense for the Province of Ontario to continue to have a duplicate solvency regime in place (with all of the associated costs) for such a small number of insurance companies or whether a different business model might be possible.

DISCUSSION

In advance of issuing their consultation paper, FSCO had preliminary consultation sessions with each of the affected companies to determine what options are available. It appears that most have indicated that they are prepared to change and become federally incorporated. FSCO acknowledged that TTCICL is unique and are seeking our feedback to determine what impact it would have for us and how to address our situation. One possibility included seeking a special exemption for TTCICL under provincial law. While the Province may have some concerns that another insurer or transit authority may seek the same exemption, we believe these concerns are allayed based on the factors set out below. Another might see us change and become federally incorporated.

Staff has determined that the options for TTCICL are to:

- Incorporate federally and seek the necessary exemptions, including an exemption to the new solvency standards; or
- Maintain our provincial license by exemption; or
- Obtain fronting insurance/true insurance in the commercial insurance market.

Staff firmly believes that maintaining the status quo for TTCICL is the best option for a number of reasons, including:

- TTC staff has spent a significant amount of time, energy and resources to establish TTCICL and obtain the necessary exemptions to operate with fiscal responsibility for the benefit of the public at large.
- There is a greater level of security, and no insolvency risk, with full indemnity from TTC and the City, than with any commercial insurance company. In addition, there is security provided by the fiscal taxation power of the City as well as the fare raising ability of TTC. As we have seen historically, even the largest of insurers can fail (e.g. AIG).
- TTCICL is obviously unique insuring only the automobile liability risks of TTC and on a different playing field than other automobile liability insurers. As well, since the inception of TTCICL, we are not aware of any other insurer or transit authority seeking any similar exemptions granted to TTCICL. If anything, our lobbying efforts have only benefited other insurers/transit authorities who assume automobile liability risks in Ontario.
- The cost of fronting insurance/true insurance would be at a very high cost without any perceived benefit. A greater downside to this is that the cost would be passed on to our customers and Toronto taxpayers.
- Further, a fronting arrangement would force a commercial insurer to set aside capital, again for no perceived benefit, as well as remove potential capacity from the marketplace.

On May 8th, FSCO published its consultation paper entitled *Improving Solvency Supervision of Insurers in Ontario*. The proposals set out in the paper as they would impact TTCICL are to:

1) Discontinue providing for the provincial incorporation of new insurers;
2) Require as a condition of licensing that insurers (except farm mutuals) be incorporated federally or in a jurisdiction where the company is subject to solvency supervision that meets the new IAIS solvency standards; and
3) Provide a transition period for the few remaining companies incorporated in Ontario (other than farm mutuals) to transfer their incorporation to a jurisdiction that meets international standards.

Staff will be preparing a confidential response to FSCO's consultation paper requesting an exemption for TTCICL to maintain the status quo and continue to be provincially incorporated in Ontario only.

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