

TTC INSURANCE COMPANY LIMITED REPORT NO.

MEETING DATE: June 24, 2013

SUBJECT: UPDATE ON 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 2, 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 nine are property & casualty insurance companies incorporated in Ontario – one of which is TTC 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.

On May 8, 2012, FSCO published its consultation paper entitled *Improving Solvency Supervision of Insurers in Ontario* to which staff prepared a confidential response to FSCO on July 4, 2012 outlining our position and seeking to maintain the TTC Insurance Company Limited's incorporation and license in the Province of Ontario and to continue to be regulated by FSCO.

DISCUSSION

As a follow up to our response to FSCO's consultation paper, FSCO requested a meeting with staff to discuss their ideas to maintain the status quo for TTC Insurance Company Limited. The meeting was held on November 1, 2012. FSCO advised that the Minister of Finance agreed that FSCO should end their responsibilities for solvency regulation for the nine property and casualty insurers currently under their jurisdiction and focus instead on market conduct regulation of insurers licensed to operate in Ontario, regardless of place of incorporation. FSCO appreciates the uniqueness of TTCICL and was to put forward a recommendation to the Minister for TTCICL to remain as is. FSCO advised that the new Regulation may result in eliminating the

requirement for Section 102 filings (P&C quarterly and annual reporting), but TTCICL must continue to comply with the Insurance Act and the new Regulation. FSCO advised they would suggest to the Minister some level of oversight achieved by an external audit or perhaps even self- regulation coupled with the a compliance statement signed by an Officer. It appeared that FSCO had minimal concern regarding solvency risk for TTCICL, acknowledging the Order in Council granted in 1994 exempted TTCICL from the minimum capital and unimpaired surplus requirements of the Insurance Act (i.e. solvency tests). FSCO was also familiar with the backstop indemnity agreement provided by the City of Toronto.

At conclusion of the meeting, FSCO advised that they would be briefing the Minister of Finance and outlining a comprehensive report to deal with all entities now under FSCO jurisdiction. It was anticipated that draft Regulation would be forthcoming in early 2013. They have agreed to allow TTC to review the draft Regulation once it has been submitted to the Minister.

In a recent conversation with FSCO, they have advised that work is in progress with the Minister of Finance and legal counsel and that the intent with respect to TTC Insurance Company Limited remains the same. FSCO has agreed to provide TTCICL with further updates in the coming months.
