

# Life Insurance Sector Consultation (LISC) 2021-2022

## Executive Summary

### **Prepared for the Office of the Superintendent of Financial Institutions**

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# Life Insurance Sector Consultation (LISC) 2021-2022

## Final Report

Prepared for the Office of the Superintendent of Financial Institutions

September 2022

The Office of the Superintendent of Financial Institutions (OSFI) commissioned Sage Research Corporation to conduct a qualitative public opinion research study to explore perceptions of OSFI as the regulator and supervisor of federally regulated life insurance companies. The objectives of the research included assessment of OSFI's guidance to the industry, its supervisory activities and its approvals process for regulatory approval applications. Interviews were completed with 58 executives from 35 companies representing 28 life insurance companies and 7 reinsurance companies, between February 28 and May 3, 2022. This publication reports on the findings of this public opinion research study.

Cette publication est aussi disponible en français sous le titre : Consultation du secteur de l'assurance vie (CSAV) 2021-2022

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# Executive Summary

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## Purpose and Research Objectives

The primary purpose of the research was to explore perceptions of the Office of the Superintendent of Financial Institutions (OSFI) as the regulator and supervisor of federally regulated life insurance companies. The objectives of the research included assessment of OSFI's guidance to the industry, its supervisory activities and its approvals process for regulatory approval applications.

## Methodology

A total of 42 interviews were conducted representing 35 life insurance companies (28 life insurance companies and 7 reinsurance companies) regulated by OSFI, ranging from the largest companies to the smaller institutions. A total of 58 individuals participated in the interviews. The participants were CEOs, Chief Agents, CFOs, CCOs, CROs, internal and external actuaries, and other senior executives.

The interviews were conducted either by telephone or via a video chat application between February 28 and May 3, 2022.

## Qualitative Research Caution

The research conducted was qualitative in nature and designed to reveal a rich range of opinions and interpretations rather than to measure what percentage of the target population holds a given opinion. As such, the results provide an indication of participants' views on the issues explored but cannot be generalized to the full population of senior executives representing the life insurance companies regulated by OSFI. Rather, the findings from this research provide themes and direction. The findings cannot be used to estimate the numeric proportion or number of individuals in the population who hold a particular opinion because they are not statistically projectable.

# Key Findings

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## Overall Impressions

### Overall impressions of OSFI

The overall assessment of OSFI is largely positive, just as it was in the 2016/2017 LISC. Widespread positive perceptions include:

- Very good working relationship with the direct supervisory team
- OSFI is proactive in identifying and responding to emerging areas of risk
- Public consultation processes are well-managed, and provide ample opportunities for industry to provide input
- OSFI has appropriately focused on the transition to IFRS 17, as this is a major undertaking for the industry

- Effective communication
- Effective in ensuring the soundness of the financial sector

## Focus on Risk Areas

OSFI is widely perceived to be focusing on appropriate areas of risk, and to be proactive in identifying and addressing emerging issues. Risk areas often cited positively in this regard included IFRS 17, cyber security, climate change risk, and the COVID-19 pandemic.

Going forward, most said IFRS 17 should be OSFI's top priority, including (a) finalizing LICAT 2023; (b) monitoring the impact of LICAT on the industry and on individual companies; (c) communicating learning to the industry about impacts of the regulations; and (d) making adjustments to the rules as needed.

After IFRS 17, the next most commonly suggested priorities were cyber security, followed by climate change risks.

Some comparisons to the 2016/2017 LISC:

- IFRS 17 was flagged as an important priority at that time, and the positive evaluation here of OSFI's focus on IFRS 17 indicates satisfaction with the follow-through
- Cyber risk was also a high priority in 2016/2017, as it is now
- Climate change risk is a new emerging risk priority, and was not named as a priority in 2016/2017

## Strengths

### Guidance

**Cyber threat landscape and Changing technology:** Just as in the 2016/2017 LISC, OSFI is widely perceived to be actively addressing cyber security, and this initiative is widely supported. On changing technology, most had little to say. The small number who commented perceive OSFI not to be doing much. This was not seen to be a problem at present, but some felt it could become an issue in the relatively near future. For example, several said growing use of predictive analytics/AI/machine learning/automated decision-making could pose risks, particularly when applied to underwriting.

**Balancing prudential considerations with need to compete:** The majority of participants perceived OSFI positively on developing guidance that strikes an appropriate balance between prudential considerations and the need for institutions to compete.

**Guidance provides a clear indication of OSFI's expectations:** Most said OSFI's guidance gives a clear indication of its expectations. And, if it is unclear how to apply a principles-based guideline, some commented that often the supervisory team can help with interpretation.

### IFRS 17

- **Communication:** OSFI is widely perceived positively both on communication of the changes introduced in the Draft LICAT 2023 Guideline, and on communication of accounting policy positions and progress reporting requirements.

➤ *Consultation:*

- *Overall IFRS-related consultative process:* With regard to the overall IFRS-related consultative process, almost all participants said OSFI has done a good job: good engagement with industry, clear communication of the changes, good pacing in terms of time allowed for industry responses and OSFI’s responses to the industry. Although, some said they wished the process had started earlier or gone faster, in order that LICAT 2023 could be finalized sooner.
- *LICAT consultative process specifically:* With regard to the LICAT consultative process specifically, the majority were satisfied, but recent proposals by OSFI around the time of the interview fieldwork (March 2022) triggered strong dissatisfaction among some companies, as described in the Challenges section of this summary.
- *QIS#3:* This combined questions across subject matter areas, rather than separate asks from each area. Almost all the participants who had some involvement in responding to QIS#3 favoured the new approach. The primary reason is that it facilitates a more integrated and holistic response: (a) encourages and facilitates different areas in the company to work together; (b) helps the company understand the impacts of IFRS 17 on their business in a more holistic way.

***E-4 Foreign Entities Operating in Canada on a Branch Basis and B-3 Sound Reinsurance Practices and Procedures:***

Most of those involved in these two consultations were satisfied with the consultation process. Although, with regard to B-3, the majority of participants did not participate in the consultation as they did not see it as being a major factor for their life insurance company. Some commented B-3 is much more important to the P&C business. This suggests that a full assessment of OSFI’s consultative process for B-3 will require input from P&C insurers.

***Consideration of Nature, Size and Complexity of LIs:*** This topic was addressed in two contexts in the interview, once with respect to guidance (asked of all but the three largest LIs), and again with respect to supervision (asked of all LIs).

- *Guidance:* The majority of participants were satisfied that OSFI’s guidance considers the nature, size and complexity of LIs, with some specifically noting that this consideration is written into guidance. There were satisfied participants from both large and small companies, but satisfaction tended to be more common among the small companies.
- *Supervision:* Almost all participants – in all size ranges – said OSFI’s direct supervisory team is good in terms of scaling supervisory activities and recommendations to risk profile, nature, size and complexity of their company.

## Supervision

***Overall evaluation:*** As in the 2016/2017 LISC, overall evaluations of OSFI’s direct supervisory teams are very positive, and are widespread across all sizes and types of LIs. Positive assessments included:

- Good communication, in several respects:
  - *Readily accessible*
  - *Responsive to questions and requests*
  - *Open and frank dialogue that facilitates constructive interaction*

- Knowledgeable about the company and about OSFI guidelines, and bring in experts when necessary
- Reasonable, pragmatic, constructive
- Scale supervisory activities and recommendations to the nature, size and complexity of the business

## Approvals

A large majority of those involved in an approval the past 1 to 2 years were satisfied with the processing of their application: about half said there were no issues at all, and the rest said they were satisfied overall but the process was a bit slower than they would have liked. This matches the findings in the 2016/2017 LISC.

The keys to satisfaction were (a) timely approval, and (b) the approval process goes mostly as expected. The implication is that managing expectations at the outset is very important for client satisfaction with the approvals process.

## Communication

OSFI is widely perceived positively on communication, both in terms of responding to questions and in its written communications. There was a similar finding in the 2016/2017 LISC.

## Challenges

### Guidance

**“Overload”:** The most commonly mentioned concern – by just under half of the participants – was the number of different consultations and data requests companies have been asked to respond to recently. Particularly in the context of the extensive amount of work companies are doing to prepare for IFRS 17 and the revised LICAT, OSFI is perceived to be “overloading” the industry with a variety of other consultations, and with no clear prioritization. Note that this type of “overload” was not a concern in the 2016/2017 LISC. Participants suggested OSFI needs to better prioritize its consultations and data requests, that the IFRS 17 transition should be OSFI’s top priority, and that at least some of the other consultations be put on slower timetables.

**Cyber security:** While participants were supportive of OSFI’s focus on cyber security, where some participants have issues, it’s with **how** OSFI is approaching this area. These concerns were not mentioned in the 2016/2017 LISC.

- OSFI’s approach is perceived to be overly prescriptive
- OSFI’s cyber incident reporting requirements are perceived to be unnecessarily onerous
- Some suggested OSFI should consult more with industry, both on regulatory principles and to develop useful and realistic incident reporting requirements

**Developing guidance that balances prudential considerations with need to compete:** The majority perceived OSFI positively on striking a good balance. Among the minority of participants with concerns, there was no single focus but rather a mix of issues, including:

- *Proposed capital requirements for segregated funds:* SFI's draft proposed requirements are perceived to be too high. Other stated concerns: (a) draft rules are overly "theoretical"; (b) rules are being developed by a very small number of people in the capital division with insufficient senior-level oversight; (c) those developing the rules are not sufficiently open to discussing modifications.
- *Lack of consideration of global competitiveness:* Several participants with international operations said they think that while OSFI may consider competitiveness within Canada, they don't think OSFI gives sufficient consideration to the value of global competitiveness. The specific issue is a belief that OSFI requires companies to hold too much capital in Canada. This concern was also expressed in the 2016/2017 LISC.
- *Perceived trend to more prescriptive guidance:* Some perceive a trend towards more prescriptive guidance, which can overly limit flexibility in being competitive. This sort of perceived trend was not noted in the 2016/2017 LISC.

**IFRS 17:** The majority were satisfied with the LICAT consultative process. However, recent proposals by OSFI around the time of the fieldwork (March 2022) triggered strong dissatisfaction – primarily among some large insurance companies (the issue – a proposed approach related to achieving capital neutrality – i.e. use of a "scalar"). Up to this point in time, these participants were largely satisfied with the process. Aside from disagreeing with the recent proposals, the consultative issues were: (a) OSFI proposals were unexpected based on prior interactions with OSFI, and (b) participants did not feel there was sufficient consideration of their input.

**Consultation:** While OSFI is perceived positively on how it manages consultations, there were some suggestions by minorities of participants – both of which were more often mentioned in the 2021/2022 LISC than in the 2016/2017 LISC:

- Do more consultations with industry before doing a public consultation. OSFI is perceived to be moving more quickly to public consultations, with negative consequences: (a) draft guidance is trending towards being more prescriptive; (b) higher likelihood of changes being needed during public consultation
- Be more open-minded in responding to industry suggestions for modifications to guidance – there is a perception that OSFI has become less open.

**Capital division:** Some participants flagged concerns about certain staff in the capital division. They said there is some guidance coming from that division which they perceive to be overly complex and "theoretical". Further there was a perception that few in OSFI – outside of the individuals writing the guidance – understand the guidance or its rationale. A few participants said that OSFI has "key person risk" because of this. This particular concern did not arise in the 2016/2017 LISC.

## Supervision

**Working relationship with other groups in OSFI:** There was very little in the way of suggestions for improvements to the direct supervisory teams. Among those who had suggestions, the most common (about a quarter of all participants) involved encouraging closer working relationships between the direct supervisory team and other groups within OSFI, in order to leverage the strengths of the direct supervisory team.

## Cost of Research

The cost of this research was \$64,925.28 (HST included).