Dear Members of the Department of Finance,

I attach my personal submission of comments regarding financial sector reform. I consent to the disclosure of my submission, but request that my identity and any personal identifiers be removed prior to publication.

With respect and kind regards.

Introduction.

This submission addresses the three objectives that guide financial sector policy, namely stability, efficiency and utility.

Stability.

The stability of Canadian financial institutions has been recognized internationally particularly in regard to the crisis of 2008.

Legislation regarding the duties and responsibilities of directors of both banks and insurance companies needs review and amendment to recognize the responsibilities of boards in regard to the review of risk exposure, controls mitigating risk, the monitoring of risk and measures for remediation in the event of a breach.

The introduction of the Own Risk Solvency Assessment taken by the Office of the Superintendent of Financial Institutions (OSFI) in 2014 was an excellent initiative. Unfortunately, this has often resulted in sole reliance by insurers on an actuarial calculation, without adequate consideration of those risks that are not easily quantifiable, such as cyber and human capital. OSFI should encourage those entities within its jurisdiction to consider a broader spectrum of risk.

There exists an anomaly, particularly in the property casualty insurance area, whereby Canadian branches of foreign insurers with significant operations in Canada are governed solely by a chief agent, whereas Canadian corporate insurers, many of which are smaller than the branches, require a board of directors. Both entities currently require the full array of an audit and actuarial review (including peer review of the reporting actuary’s work). This is a minor issue but needs some consideration. Perhaps, a size test could be applied, either relieving the small companies of having to have a board of directors, or requiring branches of over a certain size to have an advisory board with some regulatory duties.

Efficiency.

There is a tendency to add new regulation, and not subtract redundant regulation. For example, auditors have for many years been required to provide a “well-being” report for the entities which they audit. It would appear that that this report is redundant, since generally accepted audit practices would reveal issues of this nature and if significant would lead to corrective action and a report on material deficiencies. Regulators should review the effective use of reports such as this, particularly those that have been “on the books” for many years.

The requirement that actuarial reports, prepared by members of the actuarial profession in good standing, be reviewed periodically by their peers is unnecessary. It is costly and time-consuming. Unless the regulators have real concerns about the quality of the work the actuarial profession, the requirement should be abolished.

Utility.

There has to be balance between protection of consumers and economic growth. At the present time consumers have benefited for a rigorous regulatory system, whereby there have been very few failures in recent years. There is however the sense that a “not on my watch” mentality prevails in government circles, so much so that investment and innovation coming from the financial sector is stifled. For example, there was a time when insurance companies could deploy a ratio of their assets, without penalty, under a “basket clause”, whereby a limited amount of investment could be made in private equity and other alterative assets. Currently, companies are severely constrained in their investment capabilities, directing a very great portion of their investments into government or hi-grade corporate bonds. Further, the regulator is currently assessing the impact of suggested compliance requirements for life insurers which indicate that companies will get penalized by investing long-term.
Situations are now occurring whereby companies are having to sell equities to meet the ratio limitations for these investments and buy bonds. While there is risk in over investing in equities, it must be borne in mind that several corporations have better credit ratings than governments. A blanket prohibition of this kind is crude. It would be better if equities (and indeed other investments) were more specifically analyzed and segregated according to risk. Different constraints could then be applied according to risk.

Conclusion.
The trend is towards tighter and tighter controls over every aspect of managing a financial institution. Management should be given more room to carry out its mission, which is to provide economically viable and safe products for its clients, a return to the stakeholders and be an engine for growth of the Canadian economy.