

FSRA

Financial Services Regulatory
Authority of Ontario



Ontario

ARSF

Autorité ontarienne de réglementation
des services financiers

**Report of the Chief Executive Officer of the
Financial Services Regulatory Authority of Ontario
as required by the Registered Insurance Brokers
Act, R.S.O., 1990**

Examination Report

Period of August 1, 2018 to January 31, 2020

Date: August 28, 2020

This report is made in compliance with the requirements of subsection 10(2) of the *Registered Insurance Brokers Act, R.S.O., 1990* (the Act), which requires the Chief Executive Officer (CEO) of the Financial Services Regulatory Authority of Ontario (FSRA) to make an annual examination of the affairs of the Registered Insurance Brokers of Ontario (RIBO) and to report the results to the Minister of Finance. This report is submitted in conjunction with RIBO's Annual Report covering its fiscal year that ended July 31, 2019.

MANDATE

RIBO's mandate, through self-governance, is to protect the public when conducting insurance transactions with general insurance brokers in Ontario. Subject to the Act and regulations, RIBO regulates the licensing, professional competence, ethical conduct, and insurance-related financial obligations of all independent general insurance brokers in the province.

ABOUT RIBO

RIBO is a self-regulatory organization (SRO) whose members are property and casualty (general) insurance brokers in Ontario. RIBO was established, under the Act, by the Ontario government in 1981.

RIBO is a non-profit organization that is financed by its members, primarily through annual registration fees. It also generates fee income from individuals who write qualification examinations. In addition, fees are collected from course providers who ask to have their courses reviewed and accredited by RIBO for the purpose of continuing education options for RIBO's members. Collectively, these revenue sources cover RIBO's annual operating expenses. Its net operating income in fiscal 2019 was \$52,000.

RIBO attempts to maintain its Operating Fund (akin to equity) at a surplus level that is approximately equal to one year of annual expenses while being mindful not to put its tax-exempt status at risk. As at July 31, 2019, the Operating Fund was \$4 million, or 83% of RIBO's expenses for the 2019 fiscal year.

The Act provides for the establishment of a governing Council of RIBO, a Qualification and Registration Committee, one or more Complaints Committees, a Discipline Committee and any other committees as necessary to fulfil its obligations under the Act. At least one member of the public, appointed by the Lieutenant Governor in Council, sits on every RIBO committee. The public members serve to represent the interest of insurance consumers and the public in general.

The Council is the governing body and the board of directors, with responsibility to manage and administer the affairs of RIBO. Its main activity is to provide oversight and guidance over the day-to-

day activities of management in order to ensure efficiency, sustainability and advancement of RIBO's mandate.

The Qualification and Registration Committee is responsible for determining the eligibility of individuals and firms as applicants for a licence or renewal of a licence. Accordingly, the committee sets and reviews RIBO's qualification standards for brokers and brokerages in Ontario. It is also responsible for ensuring that individuals and businesses comply with these standards.

The Complaints Committee evaluates the merit of allegations of professional misconduct against a member to determine whether there is sufficient evidence to warrant referring the complaint to the Discipline Committee.

The Discipline Committee conducts hearings on matters referred to it to determine whether allegations of misconduct or incompetence against a member have been proven. Where a member is found guilty, based on the evidence presented, the Discipline Committee has the authority to impose an appropriate penalty, ranging from a reprimand to licence revocation.

REGULATORY CO-ORDINATION

RIBO monitors developments within the insurance industry by participating in industry events and meetings of various organizations. In addition, RIBO meets with other regulatory bodies and stakeholders regarding regulatory changes that could affect RIBO's mandate.

EXAMINATION

Pursuant to subsection 9(1) of the Act, the CEO of FSRA is deemed to have an interest in RIBO as the representative of all persons who may be served by registered insurance brokers. FSRA's 2020 examination of RIBO focused on assessing RIBO's compliance with selected requirements of the Act, as well as its regulatory approach to strengthen market conduct expectations of brokers. As such, the examination included, but was not limited to, a follow-up on the status of initiatives that were observed during the 2019 examination, a review of the minutes of the Annual General Meeting, a review of the minutes of the Council and its committee meetings, and a review of RIBO's audit program for brokers, including a sample file review of completed audits. In addition, there was a review of the 2018-2019 Annual Report and the external auditor's reports, a review of the latest interim financial statements, and a review of the quarterly bulletins. Discussions were also held with RIBO senior management on industry issues and RIBO's current and future initiatives.

FINANCIAL STATEMENTS

FSRA relied upon the work of the external auditor, who did not raise any issues or concerns in its year-end report to the Council and issued an unqualified opinion that the 2018-2019 financial statements present fairly.

PUBLIC APPOINTMENTS

Regulation 308/98 requires that four members of the Council be public appointments made by the Lieutenant Governor in Council. The composition of the Council satisfies this requirement.

Subsection 17(1) of the Act requires that at least four members of the Discipline Committee must not be members of RIBO, but be appointed by the Lieutenant Governor in Council. There are currently only three public members on the committee. As such, one additional public member needs to be appointed; however, this has not prevented RIBO from performing its duties. RIBO's CEO advised that he has informed the Ministry of Finance of this vacancy. If needed, RIBO could draw a public member from the Council to sit on a panel for a disciplinary hearing.

The composition of all other committees meet the requirements of the Act and the regulations.

REGULATORY OVERSIGHT

The Qualification and Registration Committee generally meets on a monthly basis to address such items as industry standards, applications for secondary business exemptions, applicants who have attempted the equivalency examination, continuing education issues, and RIBO management proposals to refuse or revoke registrations.

Brokerages are required to carry errors and omissions insurance and a fidelity bond. There is additional consumer protection by way of RIBO's Professional Indemnification Fund, which was established in 1992 to cover losses on claims for premiums misappropriated by brokers.

Complaints against brokers may arise from members of the public or from the on-site spot checks or broker reviews that are conducted by RIBO investigators. Where matters are referred by RIBO staff to a Complaints Committee, the Committee decides whether the allegation is not substantiated or forwards it to the Discipline Committee for further action.

In considering an allegation of misconduct or incompetence against a member, the Discipline Committee may offer a resolution on a consent basis or conduct a hearing. In the event a member is found guilty, the Committee may impose an appropriate penalty or combination thereof, as set out in the Act. Penalties vary, including the revocation or suspension of the member's licence, restrictions

placed on the member's licence, and/or the imposition of a fine. Disciplinary decisions are published in RIBO's quarterly bulletin; however, the Discipline Committee retains discretion on whether to grant a request for non-publication.

CONCLUSION

Based on the results of FSRA's examination of selected requirements of the Act, RIBO is regulating the registered insurance broker industry and operating within the requirements of the Act and the regulations.

Given that this was a transitional year representing the first year FSRA has reviewed RIBO, this year's focus was a general overview of RIBO's operations. This will provide a baseline for future discussions and for more risk-based and outcomes-focused examinations (such as RIBO's activities to help FSRA ensure compliance with the auto insurance 'take-all-comers' rule).

There are three primary recommendations for RIBO, as noted below:

Recommendation 1: Given the importance of continuing education to serve the public interest, the Continuing Education Accreditation Committee should be activated and its terms of reference finalized, regardless of whether online access to course submissions is available, rather than relying on a consultant to evaluate course offerings.

Recommendation 2: It is recommended that RIBO update its policy and procedures manuals, particularly for aspects that are impacted by the implementation of new information systems. We note that this is a repeat finding and we also recommend that RIBO management prepare a plan to address all FSRA recommendations, and obtain its Council's concurrence to such plan, and that RIBO provide an annual self-assessment to its Council (copy to FSRA) against such plan.

Recommendation 3: It is recommended that RIBO update and make the following enhancements to its spot check / broker review program, documentation or report, as applicable:

1. Maintain and/or retain documentation of work performed, particularly in support of the business practices comments that were included in the report. The Practices and Procedures section of the program, as well as Client File Audit documentations, were notably absent from most of the files reviewed by FSRA.
2. Validate responses from the brokerage, particularly for Practices and Procedures, e.g., by recording supporting evidence from file sample reviews.

3. Concerning continuing education (CE) documentation and/or report, consistently record the number of registered brokers in the brokerage, how many were validated for CE, and the CE results.
4. Consistently record in the working papers and in the report the number of policy files reviewed in a sample to support conclusions.

Attached is RIBO's Annual Report for its fiscal year ended July 31, 2019.