



Office of the Superintendent of  
Financial Institutions Canada

Bureau du surintendant des  
institutions financières Canada

# RISK TOLERANCE FRAMEWORK (RTF) & RESOURCE ALLOCATION MODEL (RAM)

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## Key principles of the Supervisory Framework

- Principles based
- Focus on material risk
- Forward looking – early intervention
- Sound predictive judgement
- Understand the drivers of risk
- Differentiate between inherent risks and risk management
- Dynamic adjustment
- Assessment of the whole institution
- Documentation



## Key requirements of the Supervisory Framework

- Supervisory planning for each institution identifies work to be conducted in the upcoming year and its priority
- Additional requirements as organizations go through the Intervention Process such as panelling, enhanced supervision etc.
- Colleges and quarterly conference calls
- Comprehensive documentation is required at all phases

## Need

- Understaffed to fulfill the requirements of our Supervisory Framework
- Onboarding new staff is time consuming
- Results in a chronic shortage
- Inconsistency in supervising like organizations
- Tendency to over-supervise immaterial institutions
- Needed a risk tolerance framework to assist supervisors in prioritizing work according to risk



## Solution

### **Resource Allocation Model (RAM)**

- Considers available supervisory time
- Determines total supervisory time necessary to complete all the Supervisory Framework requirements

### **Risk Tolerance Framework (RTF)**

- Guides prioritization of work given available resources
- Guides supervisor on where to focus efforts
- Provides a safe harbour



## RTF and RAM reconcile planning and work

RTF provides guidance for supervisors and management on the:

Degree of risk OSFI is willing to tolerate in its supervision of FRIs; and,

Effective allocation of OSFI's resources according to those risk tolerances.

The RAM has been designed to support the:

Benchmarking of the base level resources required – bottom up

Prioritization of On-site Reviews/ Significant Activity / Quality of Risk Management reviews – top down

### Both RTF and RAM consider:

- OSFI's Mandate, Supervisory Framework, Reputational Risk, and FRFI characteristics



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## Individual Supervisory Plan (ISP) compared to RAM

- The ISP drives the bottom up planning process
- Bottom up and top down are both valid perspectives to finalize supervisory work
- Differences form a basis for management and staff to have further discussions on work priorities AND in finalizing/re-prioritizing the (annual) FRFI work plans
- This is important as there are finite resources and over 300 insurers to regulate.

## ISS Risk Tolerance – Stage 0

Risk Tolerance for ISS		
Low	Moderate	High
<ul style="list-style-type: none"> <li>• Conglomerate Life Insurer</li> <li>• Mortgage Insurer - CMHC</li> </ul>	<ul style="list-style-type: none"> <li>• Non-conglomerate Life Insurers - <i>Large to Medium Mutual, Canadian Companies, Fraternal &amp; Reinsurers</i></li> <li>• P&amp;C Insurers                             <ul style="list-style-type: none"> <li>○ <i>Personal / Multi Lines</i></li> <li>○ <i>Commercial Small to Mid-Market</i></li> <li>○ <i>Niche &amp; Reinsurers</i></li> </ul> </li> <li>• Private Mortgage Insurers</li> </ul>	<ul style="list-style-type: none"> <li>• P&amp;C Insurers                             <ul style="list-style-type: none"> <li>○ <i>Commercial Large Market</i></li> <li>○ <i>Foreign Branches</i></li> </ul> </li> <li>• Non-conglomerate Life Insurers                             <ul style="list-style-type: none"> <li>○ <i>Small Foreign Branch</i></li> <li>○ <i>Run-off or Inactive</i></li> </ul> </li> </ul>





# ISS RTF will decrease & Supervisory intensity will increase due to staging

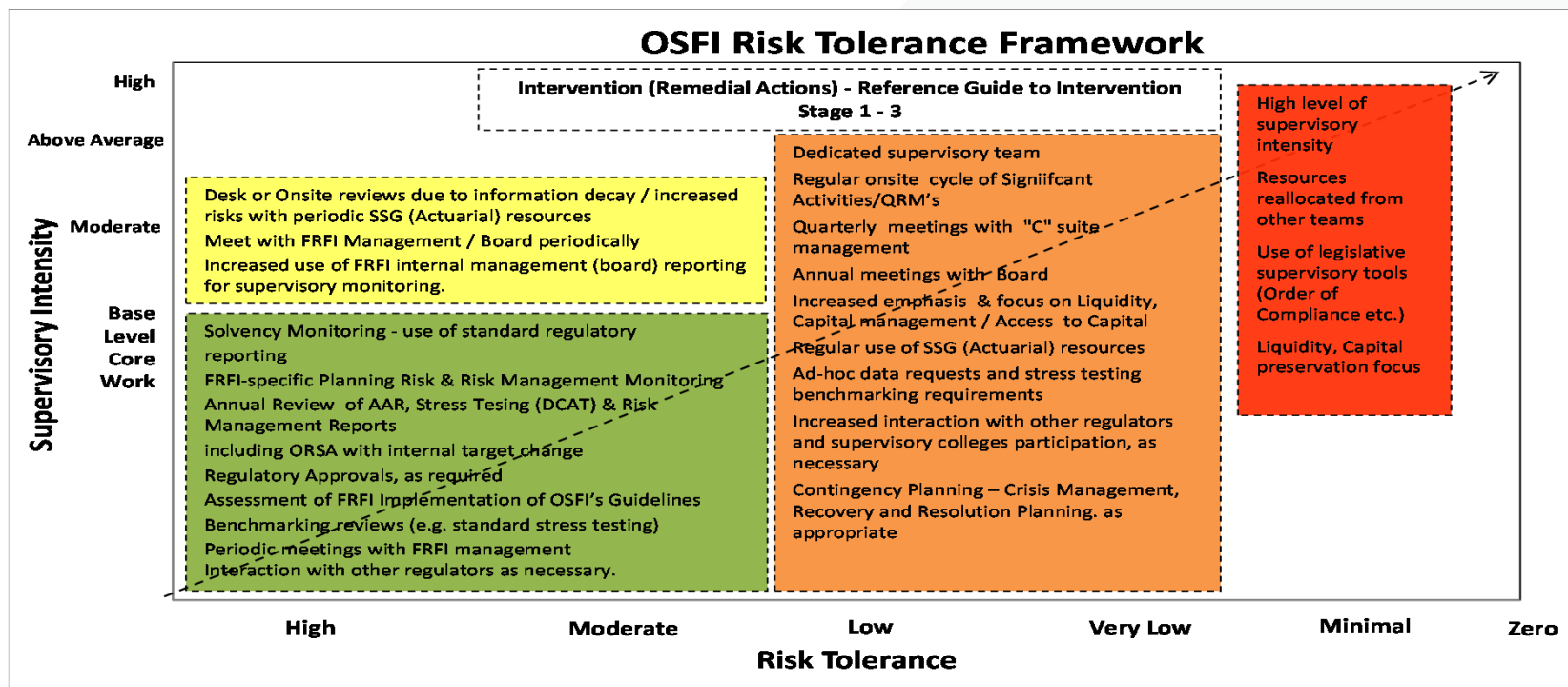
Levels	At this Risk Tolerance Level:
<b>Minimal</b>	<b><i>The FRFI is likely domestically or globally systemically important.</i></b>
<b>Very low</b>	The FRFI would likely be at the high end of the intervention stage level (2 or higher). Supervisory intensity would be relatively high, focused on solvency, liquidity, remediation, and / or recovery, resolution activities. OSFI would not be willing for this institution's risk profile or intervention stage rating to increase much further. Dedicated supervisory team may be required
<b>Low</b>	<ul style="list-style-type: none"> <li>• <b>Life Insurance Conglomerates and</b></li> <li>• <b>Mortgage Insurer - CMHC</b></li> </ul> <p>Supervisory intensity for a FRFI falling in this risk tolerance level would likely be above average in terms of the depth, frequency and timing of monitoring, onsite review(s), senior management/board meetings etc. It would also be important for the supervisor to be proactive in ensuring the risk assessment is accurate &amp; timely. Confirmation of risk assessment ratings could require a higher level of substantive (evidentiary) work.</p> <p>At this level, there could be also be a focus on solvency, remediation and contingency planning. Increased utilization of SSG (Actuarial) resources for onsite reviews.</p>
<b>Moderate</b>	<ul style="list-style-type: none"> <li>• <b>Life Insurance - Mid-sized Non-Conglomerate</b></li> <li>• <b>P&amp;C Insurance – Personal/Mult- Lines, Commercial Mid-Market, Niche &amp; Reinsurers</b></li> <li>• <b>Mortgage Insurance - Private</b></li> </ul> <p>At this level, supervisory intensity is likely to be moderate in terms of the depth, frequency and timing of monitoring including periodic touch points with FRFI senior management/board and onsite review(s) based on the degree of information decay. Confirmation of risk assessment ratings could require some level of substantive (evidentiary) work depending on materiality. Use of SSG (Actuarial) resources may be required.</p>
<b>High</b>	<ul style="list-style-type: none"> <li>• <b>P&amp;C Insurance - Commercial Large Market, Foreign Branches – Personal/Multi lines &amp; Commercial</b></li> <li>• <b>Life Insurance - Small Non- Conglomerate</b></li> </ul> <p>Supervisory intensity is at the base line level – based on size, risk profile and complexity. Supervisors could allow some flexibility in terms of the degree of information decay before an onsite review is necessary and/or potentially with less substantive evidence being required to close OSFI's recommendations. Use of SSG (Actuarial) resources as needed.</p>



## Issues

- Training staff on application of RTF principles
- Trust that the RTF is a safe harbour
- Reputation risk if a number of small companies fail – early exit strategy

Work at varying level of intensity is illustrated in the boxes below



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Questions?



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