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
Both RTF and RAM consider:

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

**RTF and RAM reconcile planning and work**

<table>
<thead>
<tr>
<th>RTF provides guidance for supervisors and management on the:</th>
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<tbody>
<tr>
<td>Degree of risk OSFI is willing to tolerate in its supervision of FRIs; and,</td>
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<tr>
<td>Effective allocation of OSFI’s resources according to those risk tolerances.</td>
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<tr>
<th>The RAM has been designed to support the:</th>
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<tr>
<td>Benchmarking of the base level resources required – bottom up</td>
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<tr>
<td>Prioritization of On-site Reviews/ Significant Activity / Quality of Risk Management reviews – top down</td>
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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

<table>
<thead>
<tr>
<th>Low</th>
<th>Moderate</th>
<th>High</th>
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<tbody>
<tr>
<td>Conglomerate Life Insurer</td>
<td>Non-conglomerate Life Insurers - Large to Medium Mutual, Canadian Companies, Fraternal &amp; Reinsurers</td>
<td>P&amp;C Insurers</td>
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<tr>
<td>Mortgage Insurer - CMHC</td>
<td>P&amp;C Insurers</td>
<td>Commercial Large Market</td>
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<td></td>
<td>- Personal / Multi Lines</td>
<td>- Foreign Branches</td>
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<td>- Commercial Small to Mid-Market</td>
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<td></td>
<td>- Niche &amp; Reinsurers</td>
<td>- Non-conglomerate Life Insurers</td>
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<tr>
<td></td>
<td>- Private Mortgage Insurers</td>
<td>- Small Foreign Branch</td>
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<td>- Run-off or Inactive</td>
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*OSFI BSIF*
ISS RTF will decrease & Supervisory intensity will increase due to staging

<table>
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<th>Levels</th>
<th>At this Risk Tolerance Level:</th>
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<tbody>
<tr>
<td>Minimal</td>
<td>The FRFI is likely domestically or globally systemically important.</td>
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<tr>
<td>Very Low</td>
<td>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.</td>
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<tr>
<td>Low</td>
<td>• Life Insurance Conglomerates and&lt;br&gt;• Mortgage Insurer - CMHC</td>
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<td>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.</td>
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<td>At this level, there could also be a focus on solvency, remediation and contingency planning. Increased utilization of SSG (Actuarial) resources for onsite reviews.</td>
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<tr>
<td>Moderate</td>
<td>• Life Insurance - Mid-sized Non-Conglomerate&lt;br&gt;• P&amp;C Insurance – Personal/Multi- Lines, Commercial Mid-Market, Niche &amp; Reinsurers&lt;br&gt;• Mortgage Insurance - Private</td>
</tr>
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<td>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.</td>
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<tr>
<td>High</td>
<td>• P&amp;C Insurance - Commercial Large Market, Foreign Branches – Personal/Multi lines &amp; Commercial&lt;br&gt;• Life Insurance - Small Non- Conglomerate</td>
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<td></td>
<td>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.</td>
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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 levels of intensity is illustrated in the boxes below:

OSFI Risk Tolerance Framework

- **High Level of Supervisory Intensity**
  - Dedicated supervisory team
  - Regular onsite cycle of significant activities/QRM’s
  - Quarterly meetings with “C” suite management
  - Annual meetings with Board
  - Increased emphasis & focus on Liquidity, Capital management / Access to Capital
  - Regular use of SSG (Actuarial) resources
  - Ad-hoc data requests and stress testing
  - Increased interaction with other regulators and supervisory colleges participation, as necessary
  - Contingency Planning - Crisis Management, Recovery and Resolution Planning, as appropriate

- **Resources reallocated from other teams**
- **Use of legislative supervisory tools** (Order of Compliance etc.)
- **Liquidity, Capital preservation focus**

**Supervisory Intensity**
- High
- Above Average
- Moderate
- Base Level Core Work

**Risk Tolerance**
- High
- Moderate
- Low
- Very Low
- Minimal
- Zero
Questions?