



Office of the Superintendent of Financial Institutions Canada

Performance Report

For the period ending
March 31, 2000

Canada

Improved Reporting to Parliament Pilot Document

The Estimates of the Government of Canada are structured in several parts. Beginning with an overview of total government spending in Part I, the documents become increasingly more specific. Part II outlines spending according to departments, agencies and programs and contains the proposed wording of the conditions governing spending which Parliament will be asked to approve.

The *Report on Plans and Priorities* provides additional detail on each department and its programs primarily in terms of more strategically oriented planning and results information with a focus on outcomes.

The *Departmental Performance Report* provides a focus on results-based accountability by reporting on accomplishments achieved against the performance expectations and results commitments as set out in the spring *Report on Plans and Priorities*.

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Foreword

On April 24, 1997, the House of Commons passed a motion dividing on a pilot basis the *Part III of the Estimates* document for each department or agency into two separate documents: a *Report on Plans and Priorities* tabled in the spring and a *Departmental Performance Report* tabled in the fall.

This initiative is intended to fulfil the government's commitments to improve the expenditure management information provided to Parliament. This involves sharpening the focus on results, increasing the transparency of information and modernizing its preparation.

The Fall Performance Package is comprised of 83 Departmental Performance Reports and the President's annual report, *Managing for Results 2000*.

This *Departmental Performance Report*, covering the period ending March 31, 2000 provides a focus on results-based accountability by reporting on accomplishments achieved against the performance expectations and results commitments as set out in the department's *Report on Plans and Priorities* for 1999-00 tabled in Parliament in the spring of 1999.

Results-based management emphasizes specifying expected program results, developing meaningful indicators to demonstrate performance, perfecting the capacity to generate information and reporting on achievements in a balanced manner. Accounting and managing for results involve sustained work across government.

The government continues to refine its management systems and performance framework. The refinement comes from acquired experience as users make their information needs more precisely known. The performance reports and their use will continue to be monitored to make sure that they respond to Parliament's ongoing and evolving needs.

This report is accessible electronically from the Treasury Board Secretariat Internet site: <http://www.tbs-sct.gc.ca/rma/dpr/dpre.asp>

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Office of the Superintendent of Financial Institutions Canada

Performance Report

**For the
period ending
March 31, 2000**

James Peterson
The Secretary of State
(International Financial Institutions)

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Minister's Message

The Office of the Superintendent of Financial Institutions (OSFI) exists primarily to safeguard policyholders, depositors and private plan members from undue loss. It advances and administers a regulatory framework that contributes to public confidence without unduly restricting the competitiveness of the regulated entities. A secondary function is to provide actuarial and other services to the Government of Canada.

In addition to its regulatory work, OSFI must formulate supervisory strategies to respond to key risk factors and identify and assess the emerging risks created by changing technological and market conditions. Looking ahead, OSFI's prudential mandate will become ever more demanding, with recent or pending changes to the scope of its role. There are likely to include a number of new institutions, some of which may be riskier than those the Office has worked with in recent years, and financial holding company structures which will be more difficult to regulate and supervise.

OSFI also provides actuarial and other services to the Government of Canada; this activity is unrelated, however, to its supervisory mandate. In order to carry out this responsibility effectively, a separate organization unit, the Office of Chief Actuary (OCA), has been created. A Consultation Committee, made up of clients of the OCA and chaired by the Superintendent, oversees its administration.

Since OSFI's regulatory and supervisory activities are entirely funded by assessments and fees collected from financial institutions and pension plans, any cost increase for these activities would not be borne by the taxpayers. However, OSFI is mindful of the financial burden on the regulated entities and is committed to full and open dialogue with its stakeholders on the costs and benefits of its work.

Section I: Chart of Results for Key Commitments

The Office of the Superintendent of Financial Institutions		
To provide Canadians with:	To be demonstrated by:	Achievement reported:
Sound and responsive regulation and supervision of federally regulated financial institutions and pension plans	<ul style="list-style-type: none"> • <u>Safeguard from undue loss</u> Identify institution-specific risks and intervene in a timely manner so as to minimize losses to policyholders, depositors and pension plan members • <u>Public Confidence</u> Contribute to public confidence by enhancing the safety and soundness of the Canadian financial system, including the evaluation of system-wide risks and the promotion of sound business and financial practices • <u>Quality</u> Improve the knowledge and skills of OSFI employees and the quality of processes and systems to meet the challenges of a rapidly changing environment • <u>Cost Effectiveness</u> Maintain full and open dialogue with stakeholders on the costs and benefits of work undertaken • <u>Competition</u> Fulfil OSFI's regulatory mandate having due regard to the need to allow institutions to compete effectively 	Section III
Actuarial services	<ul style="list-style-type: none"> • Services are provided to Parliament and other federal programs and pension funds in a professional, cost-effective and timely manner 	Section III

Section II: Departmental Overview

Mandate

OSFI derives its mandate from the *Office of the Superintendent of Financial Institutions Act*. It is responsible for regulating and supervising all federally registered banks, insurance, trust and loan companies, cooperative credit associations and fraternal benefit societies. OSFI also monitors federally regulated pension plans and provides actuarial advice to the Government of Canada. In addition, OSFI administers the following:

- *Bank Act;*
- *Insurance Companies Act;*
- *Trust and Loan Companies Act;*
- *Cooperative Credit Associations Act; and*
- *Pension Benefits Standards Act, 1985.*

The Office also has duties imposed by portions of the

- *Public Pensions Reporting Act; and*

Canada Pension Plan.

Mission Statement

Mission

To better focus on its legislated mandate and to provide a framework for accountability, OSFI has developed the following mission statement:

Our mission is to safeguard policyholders, depositors and pension plan members from undue loss. We advance and administer a framework that contributes to public confidence in a competitive financial system. We also provide actuarial services and advice to the Government of Canada.

We are committed to providing a professional, high-quality and cost-effective service.

Objectives

Five strategic objectives flow from the mission statement. These five objectives form the basis of the accountability framework against which OSFI will assess progress in carrying out its mandate.

Safeguarding from Undue Loss

We identify institution-specific risks and trends and intervene in a timely manner so as to minimize losses to policyholders, depositors and pension plan members.

Public Confidence

We contribute to public confidence by enhancing the safety and soundness of the Canadian financial system. We evaluate system-wide risks and promote the adoption of sound business and financial practices.

Quality

We continually improve the knowledge and skills of our people and the quality of our processes and systems to meet the challenges of a rapidly changing environment.

Cost-Effectiveness

We maintain a full and open dialogue with our stakeholders on the costs and benefits of our work.

Competition

We fulfil our regulatory mandate having due regard for the need to allow institutions to compete effectively.

Operating Environment and Challenges

There were no fundamental changes to OSFI's mandate or its reliance-based supervisory approach.

However, in June 1999, the government released its policy paper, *Reforming Canada's Financial Services Sector: A Framework for the Future*, which was followed by the introduction of legislation (Bill C-38) on June 13, 2000. The legislation includes changes to OSFI's mandate which would strengthen the emphasis on facilitating competition. The need to provide input to the government as it passes the Bill has immediate resource implications for OSFI, and longer-term resource and supervision implications depending on the outcome of the Bill. OSFI's resource planning is based on the assumption that the Bill will pass.

Another key assumption is that there will be no major economic downturn that will significantly affect Canadian financial institutions. However, despite the fact the North American economy ended on a strong note, negative economic development in Asia, Russia and Latin America in recent years showed that economic risks may still be on the downside. OSFI is planning for a higher level of risk and more supervisory interventions, and will seek the flexibility to make further adjustments if necessary.

The financial sector is rapidly changing and as a result will continually pose challenges with new products and new structures. To meet these challenges OSFI needs to be able to recruit, develop and retain high quality staff with unique skill sets, and to maintain employee morale and motivation at a high level.

Some of the changes in the financial sector, including mergers, acquisitions, demutualizations and growing market pressures and competition from foreign and unregulated institutions, are affecting OSFI's relationship with financial institutions and could, over time, weaken OSFI's regulatory and supervisory activities. OSFI will need to become more forceful and directive where necessary, while continuing the existing atmosphere of co-operation.

At the same time OSFI must respond to the expectations of many different stakeholders both domestic and foreign. Financial institutions operate in a global market and OSFI must continue to support the major international supervisory bodies.

Section III: Plans, Priorities and Strategies

(A) Summary of Objectives

- ❖ Safeguarding depositors, policyholders, and pension plan members from undue loss caused by failure of financial institutions or private pension plans
- ❖ Provision of regulatory and supervisory services for financial institutions and private pension plans that are cost effective and do not unduly impede the competitiveness of regulated industries
- ❖ Provision of actuarial services regarding public pension plans that contribute towards maintaining the solvency and cost effectiveness of these plans

(B) Significant Initiatives Regarding Legislation and Regulations

New Legislation

In early 1999, Bill C-67 was passed introducing the new branching regime intended to reduce costs and regulatory burden for foreign banks choosing to operate in Canada on a branch basis, thus enhancing opportunities for increased competition and choice for Canadians.

New penalties regulations will enable OSFI to prescribe penalties on institutions for late or erroneous filings.

On June 13, 2000, the Government of Canada introduced legislation reforming the policy framework for the financial services sector. This legislation follows the government's June 1999 policy paper, *Reforming Canada's Financial Services Sector: A Framework for the Future*.

Among other matters, the legislation provides greater structural flexibility for federally regulated financial institutions through the introduction of an expanded permitted investment regime and a regulated holding company option for large banks and large demutualized insurance companies. In addition, it lowers the entry requirements for new financial institutions, removes some of the barriers to closely held ownership of small banks, and allows larger share participations in large banks, which increases the scope for strategic alliances.

The legislation also provides OSFI with more powers that will enhance its ability to deal with problem situations.

Demutualization

In March 1999, the Government of Canada passed legislation and made regulations allowing Canada's large mutual life insurance companies to convert into companies with publicly traded common stock – a process called demutualization. In the conversion to a stock company, eligible policyholders in the mutual companies could either become shareholders or elect a cash payment in lieu of shares.

The four largest mutual insurance companies converted to stock companies in 1999 and early 2000. OSFI played an active role to help ensure policyholders were protected during this process. Specifically, OSFI worked with the relevant companies to ensure policyholder information was prepared in a plain-language format and approved the material that was sent to policyholders to help them form a reasoned judgement on demutualization. OSFI also required the companies to provide expert opinions on the value of the company and whether the method of allocating that value to policyholders was fair and equitable.

Finally, OSFI established a toll-free telephone information service to assist in responding to policyholder questions on demutualization. During the fiscal year, a total of 8,368 consumer enquiries were received by OSFI regarding demutualization.

Assessments Levied on Financial Institutions: User Fees and Changes to Assessment Methodology

Following extensive consultation with financial institutions and their industry associates, OSFI introduced a program of charging individual financial institutions for selected services. In Phase One of this program, which went into effect on January 1st, 1999, OSFI began charging fees for certain corporate approvals.

OSFI commenced Phase Two of its user pay program in 1999. During this phase, OSFI is evaluating the fairness of its current methodology for assessing costs to financial institutions and is considering the introduction of assessment surcharges to recover directly from problem institutions additional costs associated with enhanced supervision. OSFI is also currently evaluating penalty fees for late or erroneous filings of financial and non-financial returns.

In the summer of 1999, OSFI established an Industry Advisory Committee, composed primarily of representatives of the industry associations. The committee was established to provide an effective vehicle for the associations and their members to offer constructive comments and suggestions on the various issues being dealt with in Phase Two. The goal is to implement any changes to the current assessment methodology commencing on April 1st, 2001.

In April 2000, OSFI added user fees for selected new activities and increased certain Phase One user fees. These user fees also cover charges paid to the Chief Actuary for actuarial services.

Northumberland General Insurance Company Regulations

The new Insurance Company Assessed Expenses Recovery Regulations permitting OSFI to issue refund cheques to insurance companies that contributed towards the liquidation expenses for Northumberland General Insurance Company came into force on April 15, 1999. The refund cheques were distributed to the contributing companies by September 1, 1999.

(C) Details by Program and Business Lines

OSFI has one program and two business lines. They are (1) Regulation and Supervision of financial institutions and private pension plans, and (2) Provision of actuarial and other services to the government of Canada.

C-1: Regulation and Supervision of Financial Institutions and Private Pension Plans

Strategic Objectives

Five objectives flow from the mission statement. These five objectives form the basis of the accountability framework against which OSFI assesses progress in carrying out its mandate. These include:

- ◆ Safeguarding from Undue Loss
- ◆ Public Confidence
- ◆ Quality
- ◆ Cost-Effectiveness
- ◆ Competition

See “Mission Statement” for more details

External factors Influencing the Business Line

See “Operating Environment and Challenges” in Section II.

Key Initiatives

In order to be successful in meeting its planned future, OSFI has undertaken several key initiatives. These are listed below under their respective Strategic Objective.

Strategic Objective 1: Safeguard from undue loss

New Supervisory Framework

During the year, OSFI continued to implement its revised supervisory methodology, with full implementation occurring in stages as OSFI personnel gain experience with the new approach.

The Supervisory Framework, which provides an outline of OSFI's revised supervisory methodology, was distributed to relevant financial institutions in August 1999, for information and to invite comments. In addition, meetings were held with various industry groups to discuss the Framework and respond to questions on the revised methodology and its impact on OSFI and on institutions.

An important feature of the Framework will be increased transparency through supervisory ratings. Once evaluation criteria and definitions have been developed in consultation with the industry, individual institutions will be provided with their composite ratings and ratings for each of the applicable risk management control functions.

Performance Measures – Undue Loss

One of OSFI's strategic objectives is to minimize undue losses to depositors, policyholders and pension plan members. Key OSFI activities that help achieve this goal are its contributions to the development of legislation that establishes a prudential framework, and the setting of rules, policies and guidelines related to such matters as required capital and risk management. However, OSFI's Supervisory Program is the main activity directly related to achieving this objective.

Realizing that no single measure can yield clear and definitive results, OSFI has developed a number of performance indicators related to minimizing undue loss. Most of these indicators are influenced by more than just OSFI's actions. For example, there has been no failure of a federal deposit-taking institution or an insurer since 1996. This situation may be partly attributable to the overall quality of management of Canadian financial institutions and to OSFI's activities, however it no doubt also reflects the lengthy period of good economic and financial conditions.

OSFI could try to design a system that is virtually failure-proof, but such a system would not offer Canadians the full benefits of a competitive and efficient financial sector. In fact, OSFI's legislated mandate makes it clear that failures are not evidence of poor performance on OSFI's part. OSFI's mandate states, in part: "Notwithstanding that the regulation and supervision of financial institutions can reduce the risk that financial institutions will fail, financial institutions carry on business in a competitive environment that necessitates the management of risk and financial institutions can experience financial difficulties that can lead to their failure."

OSFI classifies institutions by various stages of intervention and uses several indicators to help track its own performance. OSFI completes a self-assessment of the effectiveness of its intervention activity for each staged institution or pension plan. Aggregate patterns in the results of this self-assessment are considered at regular intervals as part of management's review and issues arising therefrom are dealt with. OSFI has also stepped up the analysis of its activities to identify patterns that cut across institutions in intervention categories.

OSFI's performance indicators are being expanded to monitor the time financial institutions spend in stages and OSFI is examining "triggers" to help identify cases that need more active intervention.

The usefulness of these indicators and processes will be enhanced in the near future as OSFI's Quality Assurance Program comes into operation. In addition, OSFI's new advisory board will review performance indicators and help enhance OSFI's accountability.

The checks and balances in the current federal regulatory system also enhance OSFI's accountability. In particular, OSFI regularly discusses actual or potential problems involving member institutions with Canada Deposit Insurance Corporation (CDIC) and the Canadian Life and Health Insurance Compensation Corporation (CompCorp), which fulfil independent risk assessment roles. These discussions help to identify issues and ensure that our actions are coordinated and appropriate. In some cases, OSFI and these organizations prepare joint responses to identified problems.

Future steps in the development of performance indicators include expanding the intervention self-assessment to include all institutions, not just staged companies. As well, the effectiveness of OSFI's performance indicators will be tested by comparing them with other internal and external ratings of institutions, and assessing results with improved OSFI data on time spent supervising various institutions.

MCCSR Guideline Review for Life Insurance Companies

In 1999, in collaboration with the Canadian Life and Health Insurance Association (CLHIA), OSFI undertook a review of the Minimum Continuing Capital and Surplus Requirements (MCCSR) Guideline. As a result of this process, OSFI issued a discussion paper in January 2000 on capital adequacy requirements for life insurance companies.

The discussion paper concluded that fundamental changes to capital adequacy requirements for life insurance companies are not necessary at this time and that the existing formula provides the flexibility required to address emerging issues. However, the review highlighted a number of priority issues to be addressed and work is underway to develop appropriate requirements for those risks. OSFI also advised the industry that a capital requirement for segregated fund guarantees will be finalized for application at the end of 2000.

Minimum Capital Test for P&C Insurers

Under the aegis of the Canadian Council of Insurance Regulators (CCIR), OSFI worked with supervisors in Alberta, Ontario and Quebec during the year to develop a harmonized, risk-based capital adequacy test for Canadian property and casualty insurers. The proposed Minimum Capital Test (MCT) will replace the four separate solvency tests that currently exist under federal and provincial legislation, and is scheduled to take effect by year-end 2001.

This proposal was issued to the industry for comment on February 28, 2000. The industry will have further opportunities to comment following the collection of data on a trial basis for both the 1999 and 2000 year-ends. The CCIR Task Force will review the comments received and the data, and intends to issue a final guideline before the end of 2001.

Strategic Objective 2: Public Confidence

International Activities

OSFI is an active member of the Basel Committee on Banking Supervision, which for a number of years has been the acknowledged standard-setter for international banking supervision. The Basel Committee's current focus is on improving the 1988 Basel Capital Accord. The Capital Accord is an international minimum standard agreed to by G-10 bank supervisors and implemented in most countries around the world. OSFI is a member of seven of the Committee's technical groups and task forces. Most of these working groups and task forces are developing the components of the new Capital Accord that the Committee expects to conclude over the next two years.

Throughout 1999-2000, OSFI also participated in International Association of Insurance Supervisors (IAIS) training seminars and committees. In particular, OSFI helped draft the paper on insurance for the Financial Stability Forum, and the methodology to accompany the insurance Core Principles. In December 1999, John Thompson, then a Deputy Superintendent of OSFI, retired from the position of IAIS Past-Chairman of the Executive Committee.

OSFI continued its participation in the Joint Forum, made up of bank, insurance and securities regulators from 13 countries, which has examined supervisory issues arising from the activities of financial conglomerates and released a number of papers setting out best practices and techniques.

In other activities, Superintendent John Palmer, along with representatives of the Department of Finance and the Bank of Canada, served on the Financial Stability Forum (FSF). The FSF was created by G-7 Finance Ministers in April 1999 to foster and coordinate international financial stability. Mr. Palmer also chaired an international working group created by the FSF to study and make recommendations on the role of offshore financial centres in the context of international financial stability.

In May 1999, OSFI participated in the inaugural Integrated Supervisors Conference, hosted by the Australian Prudential Regulation Authority in Sydney. Integrated supervisors have responsibility for regulating more than one financial sector industry, including, at minimum, banks and insurance companies. OSFI hosted the second such conference in Toronto in May 2000. OSFI also continued to participate in the governance and program delivery activities of The Toronto International Leadership Centre for Financial Sector Supervision, which in 2000 added securities, insurance and conglomerate supervision to its portfolio of courses.

IMF Peer Review

In May 1999, the IMF, in conjunction with the World Bank, implemented a pilot Financial Sector Assessment Program (FSAP) designed to strengthen surveillance of IMF members' financial systems. Canada agreed to be the first major industrialized country to undergo such an assessment. A prominent feature of the FSAP was a peer review of Canada's observance and implementation of the Basel Core Principles, carried out by experienced bank supervisors from the Board of Governors of the Federal Reserve System (United States), the Central Bank of Brazil and the Deutsche Bundesbank (Germany). In support of the Minister, OSFI played a major role in developing the supervisory peer review concept and working with the IMF and World Bank to incorporate it into the FSAP process.

The IMF peer review of Canada concluded there is a high degree of compliance with applicable standards, which has contributed to Canada's stable financial system. The report noted minor deviations from the Basel principles. These were already being addressed in proposed legislative changes that were announced in June 1999 and subsequently introduced by the Government of Canada in June 2000.

As part of the IMF review, an assessment was conducted of OSFI's performance against a set of principles published in 1997 by the International Association of Insurance Supervisors (IAIS). The IAIS assessment methodology was still under development at that time and the IMF, for operational reasons, did not use peer review for this part of its work. However, the IMF report on OSFI noted that there was full or broad compliance with all IAIS principles.

In the context of the FSAP and, based on the self-assessments provided by Canadian authorities, the IMF produced the *Report on the Observance of Standards and Codes*, which reviews Canada's observance of international standards. This IMF report can be found on the IMF Web site at www.imf.org/external/np/rosc/can/index.htm.

Public Opinion Survey

An important element in tracking OSFI's performance and helping promote accountability is the commissioning of independent surveys of selected external audiences to determine their views on OSFI's performance.

In 1997, OSFI commissioned a national public opinion poll of Canadian adults to determine their level of confidence in the safety of money placed with Canadian financial institutions. This survey will be conducted periodically and was performed for the second time in late 1999. Similar questions were asked during surveys conducted in 1986 and 1993.

In the 1999 survey, 84 per cent of respondents said they were confident about Canada's financial system. This figure is slightly below the 88 per cent reported in the 1997 survey, but the decline is not significant in statistical terms. Indeed, confidence remains at a high level and within the range observed by the polling agency in similar surveys dating back to the mid-1980s.

Other government agencies, in addition to OSFI, have the capacity to contribute to public confidence in Canada's financial system. Public confidence is also influenced by domestic and international factors beyond the direct control of government agencies. Although it is not possible to determine the specific contribution of government agencies to maintaining public confidence, recent events in other countries have demonstrated that such confidence likely suffers when regulatory agencies are not performing at a satisfactory level. OSFI will continue to monitor the levels of public confidence in the Canadian financial system to help assess how effective it is in achieving its objectives.

Effectiveness Survey

In 1998 OSFI commissioned a leading market research firm to conduct OSFI's first Effectiveness Survey. The survey consisted of interviews of senior executives in institutions regulated by OSFI and in professional firms that serve the financial sector to determine their views on OSFI's effectiveness. This survey, which will be conducted periodically, was performed a second time in the spring of 2000.

The 1998 survey found that OSFI's performance was well regarded by respondents. They viewed OSFI as a serious, consultative regulator that is perhaps the best in Canada. However, they expressed concern about OSFI's high staff turnover and its ability to adapt to the rapidly changing financial sector.

The 2000 survey indicates that OSFI's performance as a regulator is now even more highly regarded by respondents than in 1998. This is a good indication that the many organizational and procedural changes made over the last five years have been effective. These changes have also contributed to a significant reduction in employee turnover.

However, in the spring 2000 survey, executives expressed concerns similar to those noted in the 1998 survey. Although a significant number of respondents indicate they believe OSFI employees are knowledgeable about the areas for which they are responsible and that OSFI's risk-based examinations are effective, they continue to believe OSFI must improve its staff

training and its ability to hire, develop and retain qualified employees. Two-thirds of respondents also expressed concerns about OSFI's ability to keep pace with changes in the financial sector.

OSFI shares the concerns expressed by respondents to this survey and has addressed them through a number of initiatives. Two such activities are the creation of the Specialist Support Sector and improvements to OSFI's training programs. The eight divisions of the Specialist Support Sector (Accounting, Actuarial, Capital, Capital Markets, Compliance, Credit Risk, Financial Analysis and Data Management, and Financial Services Technology) provide specialized technical assistance to supervision teams and focus on the identification of emerging risks. OSFI's new and more comprehensive training programs provide in-depth training in supervisory areas where there has been significant change.

OSFI Advisory Board

For private-sector corporations, as well as financial regulatory agencies in many other jurisdictions, governance provided by a Board of Directors is a cornerstone of their accountability framework as it instills a heightened level of corporate discipline and rigour.

As a means of further enhancing its accountability, OSFI is establishing an Advisory Board that will provide counsel to the Superintendent on a wide range of issues related to OSFI's internal operations and overall areas of responsibilities.

During 1999-2000, OSFI laid the groundwork for the creation of an Advisory Board. Seven board members, representing a wide range of financial sector expertise and senior management and operational experience, were selected in mid-2000. The Superintendent will initially chair this advisory body and it is expected that the inaugural meeting of the Board will be held in October 2000.

The Board will not be privy to any institution-specific information and individual Board members will be subject to conflict of interest and confidentiality rules. The Board will not involve itself in financial sector policy issues and other matters that are ministerial responsibilities.

Although OSFI's Board will be advisory in nature, its scrutiny of OSFI's plans and priorities will help to ensure OSFI is well positioned to meet its mandate and strategic objectives.

The new Board will provide the Superintendent with a valuable industry perspective on the changing realities of the financial services sector. This input will be important in assisting OSFI to maintain its effectiveness and find the right balance in its supervisory policies between safety and soundness, on the one hand, and competitiveness and flexibility on the other.

Strategic Objective 3: Quality

Employee Survey

OSFI developed and completed its second employee survey this year to assess employee satisfaction. The specific objectives of the survey were to determine the “climate” of the organization, compare the findings with a similar 1997 survey to identify further areas where improvements could be made, and provide additional data to track human resource programs over the next year.

Responses this year were generally more positive than in 1997. Of the 22 comparable issues on which respondents were questioned, the responses to 19 were more positive and only one was more negative. The responses to the remaining issues did not change.

OSFI’s strengths indicated by this year’s survey included: permitting employees to take personal responsibility for training and career development; employee benefits; supervisory effectiveness; making it possible for employees to contribute to corporate objectives because of an understanding of OSFI’s mission and values; the ability of employees to communicate in the official language of their choice; and general satisfaction.

In addition to comparing this year’s results to those obtained in 1997, some survey items were also compared to an external Canadian database of representative private sector and public sector employers. Of the 32 survey items compared, OSFI employees rated six items significantly more positively than did Canadians in the general working population. Four survey items were more negative than in the general population and there were no significant differences between the remaining items.

Although OSFI demonstrated several areas of strength, the survey results indicated that the following issues remain a challenge for OSFI: performance pay; fair pay; performance management; leadership effectiveness; and effective staffing. A comprehensive plan, including the on-going use of an Employee Advisory Group, will be developed by OSFI’s executive to make further progress on these important issues.

IM/IT Strategic Plan

During the year, OSFI continued to build the Information Management/Information Technology (IM/IT) environment called for in OSFI’s Strategic Plan. The objective of this work is to put in place a set of integrated technologies, readily adaptable to the work processes and information needs of employees.

Ultimately, OSFI’s IM/IT environment will feature a standard “tool set” on all desktop computers or notebooks, which will allow users to create, store, manipulate, search for, retrieve, distribute/share and re-use information seamlessly and productively wherever they are working. When advancements in firewall and other security mechanisms permit, this will be accomplished through the linkage of “OSFINet”, OSFI’s Intranet site, to the Internet.

Once in place, the new environment will facilitate electronic collection, distribution and sharing of information with all of OSFI's stakeholders. New technologies will be used to consolidate OSFI's information holdings into an integrated knowledge base, with tools that allow users to easily search, find, retrieve, manipulate and store data. OSFINet will be used as the standard or common window to access information in the knowledge base.

Strategic Objective 4: Cost Effectiveness

Cost-Benefit Analyses

Fundamental to the maintenance of a stable and competitive financial system is sound regulation. On a theoretical level, the optimal amount of regulation is straightforward. It is that level at which the costs of more regulation will exceed the benefits of the added regulation or, in other words, when added regulation is no longer cost-effective.

Unfortunately, there is no easy way to assign numerical values to the costs and benefits of regulation. Work is ongoing in many economies, most notably the United States and the United Kingdom, to measure the impact of regulation on the economy. In fact, recent legislation establishing the Financial Services Authority (FSA) in the United Kingdom requires the FSA to conduct cost-benefit analysis in discharging its functions. The FSA is required to publish an estimate of the costs and an analysis of the benefits of its proposals whenever their impact is likely to be more than a minimal increase in the costs of those affected.

OSFI recognizes that regulatory measures impose costs on the economy, costs which are incurred in anticipation of benefits to be generated by the regulatory measures. OSFI is committed to operating in a cost-effective way and intends to add cost-benefit analyses to its decision-making "toolkit."

Cost-benefit analysis is a well-established discipline of applied economics and has long been used by government agencies in Canada as an appraisal tool for policy evaluation. Use of cost-benefit analysis, even when numerical estimates cannot be made with precision, provides a valuable framework to identify, target and check the impacts of regulatory measures that OSFI proposes. It also provides a useful format to focus consultation with stakeholders and contributes to the accountability of OSFI.

OSFI is currently working with sister agencies in Australia and the United Kingdom to develop a practical approach to cost-benefit analysis in the financial services sector, and will involve stakeholders and other sister agencies in those efforts.

Streamlining:

OSFI worked closely with the Department of Finance on legislative changes to streamline the approval process for many transactions currently requiring the approval of the Superintendent.

The results of this work are contained in Bill C-38, introduced in the House of Commons on June 13, 2000, which sets out a deemed approval process.

Under the proposed deemed approval process, when institutions file an application with OSFI, the Superintendent will have a maximum 30-day period to raise concerns, seek further information or indicate that there will be a delay. If none of these actions is taken, the transaction will be deemed to have been approved. The Superintendent can also explicitly approve the transaction before the end of the 30-day period.

OSFI will publish information requirements for each approval under the Act to increase transparency and help ensure there are no delays due to inadequate information.

Processing applications against time frames is a significant step forward and will create the basis for measuring OSFI's performance in this area. Performance measures will be developed using data collected from a new system designed to track the status of applications, including any reasons for delay. For the first time, OSFI will be able to assess how efficiently it deals with applications and will have information that will form the basis for developing solutions to any problems in the application process.

Although legislative changes are required to implement the deemed approval concept fully, OSFI will be adjusting its internal procedures to reflect the 30-day time frames in advance of the passage of legislation.

Strategic Objective 5: Competition

OSFI completed initiatives started in 1998-99 that included: demutualization of four life insurance companies; development of the approval process for the new foreign branch banking regime; and approval of seven foreign banks. OSFI also assisted on introducing legislation intended to allow more compatible and greater structural flexibility in the Canadian financial services market place.

Refer to Section III (B), Significant Initiatives regarding Legislation and Regulations, for more detail.

C-2: Provision of Actuarial and Other Services to the Government of Canada

Objective

The objective is to provide actuarial and other services to the Government of Canada in a professional, efficient, cost effective and timely manner.

External Factors Influencing the Business Line

OSFI provides actuarial reports, advice and services on public pension plans such as the Canada Pension Plan (CPP), Old Age Security (OAS) as well as other plans for the Public Service, Members of Parliament, Canadian Forces. Annual contribution and taxes for these programs is about \$43 billion and total liabilities amount to about one trillion dollars. The ageing of the Canadian population and fluctuation in disability claims will put increasing cost pressures on public pension plans. It is essential to provide the government with objective and accurate assessments of the plans' financial situation and the effect of any proposed changes so that the right decisions can be made.

Key Initiatives

Since the objective of this business line is significantly different than the objective of OSFI's primary business objectives, a separate organization structure is required to carry out this function effectively. The Office of the Chief Actuary (OCA) responsible for this business line has been structured as a distinct activity, still legally part of OSFI, but operationally separate from it. OCA has taken on its own separate identity and has its own Consultation Committee made up of senior representatives of the Department of Finance, the Treasury Board Secretariat and Human Resources and Development Canada, all "clients" of the OCA. The Superintendent of Financial Institutions chairs this committee. The function of the committee is to provide the Superintendent with advice on issues normally considered by a Board of Directors.

Results Achieved in 1999-2000

In April 1999, a panel of three experienced, independent actuaries completed a formal review of the Seventeenth Actuarial Report on the CPP. The OCA has since worked actively on each of several recommendations flowing from this review.

In March 2000, the OCA hosted "Demographic and Economic Perspectives of Canada, Years 2000-2050," the first seminar designed to broaden the OCA's sources of advice and opinions concerning the assumptions made in preparing the CPP report.

A policy for supplying actuarial information and services on the CPP was adopted in April 2000, which standardizes the practices and ensures transparency in their operation.

In February 2000, the OCA provided the Department of Finance with an actuarial cost certificate on the effects of Bill C-23, which amends the CPP to extend the definition of a common-law relationship to include same-sex couples.

Two actuarial reports were tabled in Parliament: the Fourth Actuarial Report on the Old Age Security in June 1999 and the actuarial report on the pension plan of the Members of Parliament in November 1999.

Section IV: Consolidated Reporting

Year 2000 Impact

Canadian federally regulated financial institutions experienced a smooth transition into the Year 2000. This resulted from co-ordinated efforts by governments and institutions to make operations Year 2000 compliant while developing appropriate contingencies. OSFI expects sustained positive operations and will continue to monitor the financial industry for any problems.

Internally, OSFI's transition to the new millennium was without incident.

During the year leading up to the new millennium, OSFI provided ongoing guidance to federally regulated financial institutions to help them become Year 2000 ready. This included setting Year 2000 milestones and continually monitoring the industry's progress through our examination and supervision process as well as surveys of over 500 regulated institutions.

During the rollover period, OSFI carried out its Year 2000 supervisory plan and contacted financial institutions in order to monitor the status of their operations and the financial markets. OSFI also kept in contact with other domestic and foreign regulators to co-ordinate activities.

Financial Performance

Financial Table 1: Summary of Voted Appropriations

A. Authorities for 1999-00

Financial Requirements by Authority (thousand of dollars)

		1999-00	1999-00	1999-00
		Planned	Total	
		Spending	Authorities	Actual
Vote	Program Name			
	Office of the Superintendent of Financial Institutions			
40	Program Expenditures	1,653	1,660	1,597
	Total Department	1,653	1,660	1,597

Financial Table 2: Comparison of Total Planned Spending to Actual Spending

Departmental Planned versus Actual Spending by Business Line (thousands of dollars)

Business Lines	FTEs	Operating	Capital	Voted Grants & Contri- butions	Subtotal: Gross Voted Expendi- tures	Statutory Grants And Contri- butions	Total Gross Expendi- tures	Less: Revenue Credited to the Vote	Total Net Expendi- tures
Supervision of Financial Institutions and private pension plans									
Planned Spending	372	47,783	616	-	48,399		48,399	48,399	-
<i>(Total Authorities)</i>	372	47,783	616	-	48,399	-	48,399	48,399	-
(Actuals)	354	53,518	575	-	54,093		53,412	46,583	6,329¹
Actuarial and other services to the Government of Canada									
Planned Spending	18	1,638	15	-	1,653	-	1,653	-	1,653
<i>(Total Authorities)</i>	18	1,645	15	-	1,660	-	1,660	-	1,660
(Actuals)	17	1,582	15	-	1,597	-	2,778	1,180	1,597
Total									
Planned Spending	390	49,421	631		50,052		50,052	48,399	1,653
<i>(Total Authorities)</i>	390	49,428	631		50,059	-	50,059	48,399	1,660
(Actuals)	371	55,100	590		55,690		55,690	47,764	7,926
Cost of Services Provided by Other Departments									
Planned Spending									93
<i>(Total Authorities)</i>									93
(Actuals)									93
Net Cost of the Program									
Planned Spending									1,746
<i>(Total Authorities)</i>									1,753
(Actuals)									8,019¹

¹ Due to timing differences on recovery of demutualization costs

Financial Table 3: Historical Comparison of Total Planned Spending to Actual Spending

Departmental Planned versus Actual Spending by Business Line (thousands of dollars)					
Business Lines	1997-98	1998-99	1999-00		
	Actual	Actual	Planned Spending	Total Authorities¹	Actual
Supervision of Financial Institutions and private pension plans	(805)	5,195	0	0	6,329
Actuarial and other services to the Government of Canada	1,759	1,669	1,653	1,660	1,597
Total	954	6,864	1,653	1,660	7,926

Financial Table 4: Crosswalk Between Old Structure and New Structure

Not Required

Financial Table 5: Resource Requirements by Organization and Business Line

This table does not apply to OSFI.

Financial Table 6: Revenues Credited to the Vote

Revenues Credited to the Vote by Business Line (millions of dollars)					
Business Lines	1997-98	1998-99	1999-00		
	Actual	Actual	Planned Spending	Total Authorities	Actual
Supervision of financial institutions and private pension plans	39,189	43,114	47,182	47,182	46,584
Actuarial and other services to the Government of Canada	1,069	1,022	1,217	1,217	1,180
Total Revenues Credited to the Vote	40,258	44,136	48,399	48,399	47,764

Financial Table 7: Revenues Credited to the Consolidated Revenue Fund

Revenues Credited to the General Government Revenues by Business Line)					
Business Lines	1997-98	1998-99	1999-00	1999-00	1999-00
	Actual	Actual	Planned Spending	Total Authorities	Actual
Supervision of financial institutions and private pension plans	-	-	-	-	-
Actuarial and other services to the Government of Canada	1,000	-	-	-	-
Sub-total	1,000	-	-	-	-
Unplanned		-	-	-	-
Total Revenues Credited to the Vote	1,000	-	-	-	-

Financial Table 8: Statutory Payments

This table does not apply to OSFI.

Financial Table 9: Transfer Payments

Not Required.

Financial Table 10: Capital Spending by Business Line

Capital Spending by Business Line (\$ thousands)					
Business Line	Actual	Actual	Planned	Total	
	1997-98	1998-99	Spending	Authorities	Actual
			1999-00	1999-00	1999-00
Supervision of financial institutions and private pension plans	493	451	616	616	575
Actuarial and other Services to the Government of Canada	77	15	15	15	15
Total	570	466	631	631	590

Financial Table 11: Capital Projects

Not required.

Financial Table 12: Status of Major Crown Projects

Not required.

Financial Table 13: Loans, Investments and Advances

Not required.

Financial Table 14: Revolving Fund Financial Summaries

Not required.

Financial Table 15: Contingent Liabilities

Contingent Liabilities (\$ thousands)		
List of Contingent Liabilities	<u>Amount of Contingent Liability</u>	
	March 31, 1999	March 31, 2000
Loans	–	–
Claims and Pending and Threatened Litigation		
Litigation	5,500	2,900
Total	5,500	2,900

Section V: Other Information

Contacts for Further Information and Departmental Web Sites

Name	Title	Address	Phone	Fax
Supervision of Financial Institutions and Pension Plans				
John Palmer	Superintendent of Financial Institutions	255 Albert Street, Ottawa, Ontario K1A 0H2	(613) 990-7500	(613) 993-6782
Nick Le Pan	Deputy Superintendent	255 Albert Street, Ottawa, Ontario K1A 0H2	(613) 990-7628	(613) 993-6782
Edna MacKenzie	Assistant Superintendent	255 Albert Street, Ottawa, Ontario K1A 0H2	(613) 990-7491	(613) 993-6782
Julie Dickson	Assistant Superintendent	255 Albert Street, Ottawa, Ontario K1A 0H2	(613) 990-3667	(613) 993-6782
Michael Hafeman	Assistant Superintendent	255 Albert Street, Ottawa, Ontario K1A 0H2	(613) 990-7805	(613) 993-6782
John Doran	Assistant Superintendent	255 Albert Street, Ottawa, Ontario K1A 0H2	(613) 993-4096	(613) 993-6782
Actuarial and Other Services to the Government of Canada				
Jean-Claude Ménard	Chief Actuary	255 Albert Street, Ottawa, Ontario K1A 0H2	(613) 990-7577	(613) 990-9900
Website: http://www.osfi-bsif.gc.ca				

Legislation and Associated Regulations Administered by the Minister of Finance

Bank Act S.C. 1991, c.46

Cooperative Credit Associations Act S.C. 1991, c.48

Insurance Companies Act S.C. 1991, c.47

Office of the Superintendent of Financial Institutions Act R.S. c. 18 (2nd Supp.), Part I

Pension Benefits Standards Act, 1985 R.S. c. 32 (2nd Supp)

Trust and Loan Companies Act S.C. 1991, c. 45

OSFI Publications *

OSFI Bulletin

Accounting and Supervisory Guidelines

Manuals of Reporting Forms and Instructions

PBSA Update

* A charge for printed publications may apply