

**Office of the Superintendent
of Financial Institutions**

Annual Report

1995-96

Canada

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OSFI Offices

255 Albert Street Ottawa, Canada K1A 0H2 (613) 990-7788 1-800-385-8647	P.O. Box 39 121 King Street West Toronto, Ontario M5H 3T9 (416) 973-9280	Suite 903 200 René-Lévesque Blvd. W. Montreal, Quebec H2Z 1X4 (514) 283-4836	P.O. Box 52 155 Carlton Street Winnipeg, Manitoba R3C 3H8 (204) 983-4140	P.O. Box 11 1095 West Pender Street Vancouver, British Columbia V6E 2M6 (604) 666-5335
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The Honourable Paul Martin, P.C., M.P.
Minister of Finance
Ottawa, Canada
K1A 0A6

Dear Minister:

Pursuant to section 25 of the *Financial Institutions and Deposit Insurance System Amendment Act*, I am pleased to submit to you and the Secretary of State (International Financial Institutions) the Annual Report of the Office of the Superintendent of Financial Institutions for the period April 1, 1995 to March 31, 1996.

Yours very truly,

John R.V. Palmer
Superintendent

Ottawa, September 1996

Superintendent's Remarks

Gearing up to meet emerging challenges was the dominant theme for the Office of the Superintendent of Financial Institutions (OSFI) throughout the 1995-96 fiscal year. It has been a year marked by continuing improvement in the performance of Canada's financial services sector coupled with expansion into new areas of activity which bring with them new opportunities and risks. Reflecting these trends, OSFI is taking steps to shift resources toward emerging risk areas.

Most financial institutions regulated by OSFI showed improved profitability and financial strength. In many cases, this was achieved despite modest growth in traditional lines of business. Instead, improvement occurred through reduced loan losses, better underwriting practices, and increased revenues from new business activities and international operations. In addition, there was further consolidation in Canada's financial sector through mergers and divestitures which contributed to the overall financial improvement.

The Canadian financial services sector will likely continue to strengthen in 1996-97 despite expected weak economic growth in the economy at large. However, such improvements in the financial sector will

not continue indefinitely and already there are early warning signs. Levels of household debt reached all time highs in 1995-96 but do not appear to have plateaued. Both consumer and business bankruptcies increased in 1995.

Mortgage and credit card arrears levels, though still low, began to climb. Despite improving profitability and capital levels, the risk profiles of some financial institutions

increased as they expanded beyond their core activities into new lines of business. In nearly all cases, such expansion was carried out with care and with due regard to appropriate controls, but despite such prudence, risk levels are increasing.

In recognition of this reality, OSFI continues to increase its efforts to assess risks and to promote sound risk control practices in the institutions we regulate.

Although this Annual Report covers the period from April 1, 1995 to March 31, 1996, changes resulting from legislation enacted after March 31 and prior to printing have been included.

John Palmer
Superintendent

Mandate

OSFI was established in 1987 by the *Office of the Superintendent of Financial Institutions Act* (OSFI Act). This legislation created a single regulatory agency responsible for regulating and supervising all federally chartered, licensed or registered banks, insurance, trust, loan and investment 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 to the duties set out in the OSFI Act, OSFI administers the following:

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

and has duties imposed by portions of the

- *Excise Tax Act*;
- *Income Tax Act*;
- *Public Pensions Reporting Act*.

A policy paper entitled "Enhancing the Safety and Soundness of the Canadian Financial System" that was released by the Honourable Doug Peters, Secretary of State (International Financial Institutions), included a new mandate for OSFI. The recommendations of the policy paper formed the basis for new legislation which received Royal Assent in May 1996.

The new mandate makes it clear that OSFI's prime responsibilities are to help to minimize losses to depositors and policyholders and to contribute to public confidence in the Canadian financial system. Preventing the failure of financial institutions, however, is the responsibility of boards of directors and management. The mandate stresses the importance of early intervention to carry out OSFI's objectives.

Mission and Strategic Objectives

In anticipation of a changed mandate, a new mission statement for OSFI was developed and adopted:

We are the primary regulator of federal financial institutions and pension plans. Our mission is to safeguard policyholders, depositors and pension plan members from undue loss. We advance and administer a regulatory 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.

Flowing from the mission statement, five strategic objectives were defined. These five objectives will form the basis of an accountability framework that will permit OSFI to assess progress in carrying out its mandate and to report publicly on that progress. However, an important element of an accountability framework is ensuring that progress against objectives can be measured. This is a challenge for any regulatory organization, and few precedents are available. Nevertheless, an important task for OSFI in 1996-97 will be to take the five strategic objectives and develop performance measures and/or evaluation processes responsive to those objectives.

1. 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.

Initiatives undertaken during 1995-96 in support of this objective included the following:

- Working with the Canada Deposit Insurance Corporation (CDIC) in the case of federal deposit-taking institutions, OSFI began to work with the “Guides to Intervention” made public early in 1995. These documents describe the various stages into which financial institutions causing regulatory concern are categorized, and detail the supervisory interventions that are initiated at each stage. Steps were taken to ensure that supervisory activity was carried out in conformity with the guides.
- OSFI continued to follow its normal risk-based examination and monitoring practices with respect to financial institutions and pension plans, making adjustments where appropriate to reflect areas of greatest risk. Traditionally, deposit-taking institutions have been subject to annual on-site examinations, while insurance companies have been examined less frequently. In 1995-96, OSFI began to increase the frequency of life insurance examinations and is adding examination staff to support this. In 1996-97, all life insurance companies will move to an annual examination cycle.
- In addition to institution-specific reviews, OSFI initiated several system-wide reviews to better understand the collective exposure of Canadian financial institutions to certain risks.
- OSFI continued to supervise financial

conglomerates on an entity rather than functional basis. Institutions with both deposit-taking and insurance arms were examined by teams of deposit-taking institution and insurance specialists working simultaneously. Next year, teams will be further integrated, and consolidated examination reports will be issued.

- Work continued on the development of OSFI's electronic databases for deposit-taking institutions and insurance companies. The database for banks became operational in 1995. Information on trust companies will be available in 1997. The database for life insurance companies will come into force later in 1996. Although a database for property and casualty insurance companies has been operational for several years, further upgrades will be required. These databases have been developed to allow OSFI examiners and analysts to access key financial information quickly in order to analyse trends and make peer comparisons.
- An important aspect of OSFI's supervision of federal financial institutions is to co-operate and share appropriate information with industry compensation funds. These include CDIC, which provides deposit insurance to deposit-taking institutions, the Canadian Life and Health Insurance Compensation Corporation (CompCorp), which provides compensation to policyholders of Canadian life insurance companies in the event of failure, and the Property and Casualty Insurance Compensation Corporation (PACIC), which provides compensation to policyholders of Canadian property and casualty

insurance companies. OSFI's relations with CDIC are governed by both legislation and a strategic alliance agreement. Efforts continued throughout 1995-96 to strengthen the OSFI/CDIC relationship and minimize overlap and duplication. With the appointment of a Board of Directors independent of member companies and other important initiatives, CompCorp set the stage for a closer working relationship with OSFI. A number of co-operative initiatives were undertaken between OSFI and CompCorp during 1995-96, including regular meetings to discuss financial institutions about which each body has concerns.

2. 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.

During 1995-96, OSFI's activities in support of this objective included the following:

- OSFI carried out a number of studies of systemic risks, including a review, undertaken in co-operation with the Insurance Bureau of Canada, of some of the financial consequences of a major earthquake, and implications for the property and casualty insurance industry, policyholders and governments.
- OSFI entered into a Memorandum of Understanding with the Department of Finance which resulted in the transfer of certain functions to OSFI. These included responsibility for technical

amendments to financial institutions' legislation (as distinct from those of a broad policy nature) and responsibility for carrying out studies of developing trends and emerging risks. Consistent with this latter responsibility, OSFI analysed a variety of risks facing financial institutions with a view to establishing priorities for further study and appropriate action.

Further studies are expected to result in modifications to OSFI's regulatory and supervisory approach.

- OSFI continued to provide support to the Department of Finance on legislative changes affecting financial institutions, and studies and proposals leading up to such changes. This included work on Bill C-15 (formerly Bill C-100) and work related to possible changes to financial institutions legislation in 1997.
- As part of the body of work leading to Bill C-15, OSFI played a lead role in developing an expanded public disclosure regime for financial institutions supervised by OSFI. This initiative included consultations with various users of financial information as well as financial institutions and professional advisers.

- There are four federal government agencies with particular responsibility for enhancing the safety and soundness of various aspects of Canada's financial system. In addition to OSFI, these agencies are the Department of Finance, the Bank of Canada and the Canada Deposit Insurance Corporation. It is important that these agencies co-ordinate activities effectively and share information. The vehicle through which much of this is accomplished is the Financial Institution Supervisory Committee (FISC), a committee formed by the deputy heads of these agencies and chaired by the Superintendent of Financial Institutions.

FISC discussions have tended to concentrate on institution-specific matters. During 1995-96, OSFI took steps to broaden the scope of FISC's deliberations to include a greater emphasis on systemic and emerging issues.

- In the course of working with the pension plans that it regulates, OSFI found itself facing a growing, though still small, number of solvency problems, and also found, in attempting to encourage a resolution of these problems, that its regulatory and supervisory powers require some clarification. To provide OSFI with clearer authority to safeguard the interests of pension plan members and to deal with a number of other technical issues, OSFI is working with the Department of Finance on a series of proposed amendments to the *Pension Benefits Standards Act, 1985*.
- One of the objectives of the internal reorganization that took place in 1995-96 was to establish a more consistent

approach to policy development for financial institutions, regardless of type. Reflecting the continuing breakdown of the four financial institution pillars and the creation of more financial conglomerates, the policy-making divisions of each OSFI financial services industry group were merged to create a new Policy Sector which assumed responsibility for all policy development in OSFI.

3. 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.

Initiatives in 1995-96 to enhance quality and professionalism in OSFI included the following:

- OSFI initiated an internal rotation program to permit OSFI employees to broaden their professional experience and to provide job enrichment.
- To ensure that its employees are familiar with new developments in Canada's financial sector and are able to understand and work with emerging risks, OSFI formed a small, professional development group within the Corporate Services Sector. The first task of this group in 1996-97 will be to complete an analysis of OSFI's training needs initiated during the previous year and to put in place a comprehensive inventory of suitable training programs.
- OSFI continued to invest in technology in 1995-96. In addition to the continuing upgrading of internal industry databases, OSFI's wide area

network was expanded to include employees working in off-site locations.

4. Cost Effectiveness

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

To ensure that OSFI continues to be a cost-effective regulator, a number of steps were taken in 1995-96, including the following:

- OSFI discussed projected cost increases and new initiatives with representatives of the Canadian Bankers Association, the Canadian Life and Health Insurance Association and the Insurance Bureau of Canada.
- OSFI proposes to meet with industry associations on an annual basis to review these issues, and to receive and consider industry advice on how costs might be managed.
- OSFI initiated a mid-year budget review in order to control cost increases arising from new regulatory and supervisory initiatives. The budgeting procedure was revised to provide a tighter control on staffing levels and payroll increases.

- A new Corporate Services Sector was established to assume responsibility for all administrative, human resource, internal communication, information, finance and professional development and training functions. A series of program reviews were initiated within this Sector to improve efficiency and effectiveness.
- The groundwork was laid for two task forces which will get under way in 1996-97. The first will examine the possibility of allocating OSFI's costs to institutions and pension plans on a modified user-pay basis, so that some element of the cost of unusually high supervisory activity in respect of a particular financial institution would be billed to that institution. The second task force will review OSFI's information requirements with a view to streamlining them or finding more efficient ways for institutions and pension plans to fulfil those requirements.

5. Competition

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

OSFI's competition objective does not call for the active promotion of competition but rather an awareness that excessive regulation and supervision can stifle competition. OSFI must find ways of accomplishing its other objectives in a way that does not unduly impair the level of competition among financial institutions in the Canadian marketplace and the competitiveness of services available to the Canadian public.

While OSFI undertook no specific initiatives in 1995-96 in support of this objective, competitiveness was considered in the review, carried out jointly by OSFI, the Canada Deposit Insurance Corporation, the Bank of Canada and the Department of Finance, of issues to be considered for legislative revision in 1997, and in the development of various guidelines.

Confidentiality

Under the *Office of the Superintendent of Financial Institutions Act* and financial institutions' legislation, OSFI is required to safeguard the confidentiality of information it obtains from and about financial institutions and pension plans, where that information is not otherwise publicly available. OSFI has worked diligently to meet this obligation. Information treated by OSFI as confidential includes non-public information obtained from or about financial institutions and also OSFI's own judgements about individual financial institutions.

OSFI's policy is occasionally challenged. The argument sometimes advanced against this policy is that the public would benefit from knowing more about the activities of financial institutions and, in particular, from knowing OSFI's concerns about specific financial institutions.

There are clear benefits from greater transparency, and in its 1995 Policy Paper, the federal government made clear its expectation that more information will be released by the financial institutions themselves. However, information not subject to public disclosure will continue to be treated by OSFI as confidential, as will OSFI's own supervisory judgements.

In addition to the requirements of OSFI's governing legislation, there are some good practical reasons to continue this policy.

If OSFI were to reveal that it had concerns about a particular financial institution, even concerns that were not particularly serious, public confidence might erode to the point that the failure of that financial institution became inevitable, eliminating what might otherwise be a good chance for the institution to restore itself to financial health. In the meantime, depositors or policyholders of that institution could be harmed as a result of the unnecessary failure.

A second concern is that OSFI's supervisory process rests heavily on voluntary compliance by financial institutions. Senior executives of institutions are usually prepared to freely share highly confidential information about their institutions, which facilitates OSFI's task of forming supervisory judgements. If it became clear that confidential information given to OSFI could be made public and could lead to potentially damning public evaluations, it is unlikely that information would be as willingly provided. OSFI would then require more resources and more expertise to seek the same information. This

could increase the regulatory burden already experienced by financial institutions, with adverse implications for competitiveness.

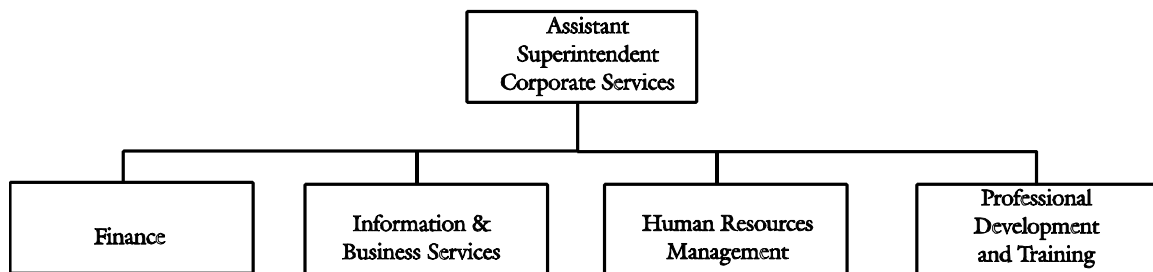
The prospect of public disclosure of OSFI's supervisory judgements could also transform the discussions with institutions about OSFI's findings from a dialogue about how to remedy weaknesses to a challenge of OSFI's judgements. What is now, in most cases, a constructive process could become adversarial and time consuming, and would not necessarily lead to early remedial action.

It is also probable that if OSFI were required to publicize its own supervisory judgements, it would be forced to place heavier reliance on more objective and less judgemental tests in forming its evaluations. This would be a retrograde step because many of the emerging risks to which financial institutions are exposed are not readily susceptible to purely objective evaluation. An important supervisory challenge with respect to emerging risks is to evaluate the quality of the institutions'

controls over these risks. Such evaluations are, of necessity, somewhat subjective. If OSFI found itself forced to defer judgements until subjective concerns about weak controls were supported by objectively measurable financial deterioration, the result would be more cautious supervision and later rather than earlier intervention.

We recognize that, in an era when transparency is a self-evident virtue, there will be continuing pressures on OSFI for public disclosure of confidential information and supervisory judgements. However, in our view, such disclosure could fundamentally undermine OSFI's existing supervisory process and might necessitate a more fundamental rethinking of financial regulation and supervision in Canada.

Corporate Services Sector



The Corporate Services Sector, established in 1995, provides centralized services to OSFI in the areas of human resources management, finance, information and business services, professional development and training, internal communications, facilities and materiel management, and internal audit.

The Sector was created to improve service to “clients”, both inside and outside the organization. To accomplish this, the Sector has undertaken a program of clearly defining the services it should offer to internal and external clients, and streamlining, restructuring and reorganizing to enhance the ability of the Sector to deliver those services in an efficient manner. The Sector is called upon to establish and maintain relationships with both the Government of Canada and the financial services industry, and is attempting to do so by removing hierarchical barriers in favour of a single-office approach. Discussions with industry associations, including the Canadian Bankers Association, the Canadian Life and Health Insurance Association and the Insurance Bureau of Canada, are held on an ongoing basis to review financial services industry assessments and other matters.

The Sector plays a key role in supporting organizational adjustments throughout OSFI.

Within the Corporate Services Sector, several streamlining initiatives are being carried out to eliminate duplication and overlap and to make business practices more efficient and cost-effective. The Corporate Services Sector has also led office-wide change initiatives including the implementation of a Business Resumption Plan and a study into OSFI’s status as a separate employer.

Information and Business Services

The Information and Business Services Division is responsible for developing and implementing cost-effective systems applications; maintaining, operating and modifying computer networks, hardware and software; ensuring effective and efficient data collection and processing; providing services regarding correspondence management and distribution; records management; and library services.

Security of Information

During 1995-96, as part of OSFI's ongoing effort to improve the security of its electronic information and communications, the installation of encryption technology on all OSFI's Wide Area Network communications links was completed. In addition, a secure dial-in service was introduced so that remote OSFI network users, using encrypted modems, could gain secure access to network information and services.

Internet

The increasing commercial use of the Internet by financial institutions makes it necessary for OSFI analysts and examiners to have access to this service. In addition, the overall migration of the federal government to use the Internet as an information delivery vehicle requires OSFI Corporate Services staff to have Internet capability in order to access government service offerings. During 1995-96, an evaluation of alternatives was undertaken to provide controlled and secure access to the Internet for OSFI staff and be consistent with OSFI's overall approach to the security of its electronic information holdings.

Home Page/Web Site

Work is currently underway on the design of an OSFI Home Page that will allow financial institutions, other organizations and individuals to access OSFI via the Internet. This site should be operational by autumn and, initially, will contain only text-based information. However, the feasibility of including financial data will be analysed.

Three-Agency Data Processing Study

As a result of concerns expressed about the complexity and cost of existing processes for collecting, verifying, storing and distributing

financial information routinely reported by banks (and by federally regulated trust and loan companies), and making this information available as needed to the Bank of Canada, CDIC and OSFI, a study was undertaken to review these processes. The study seeks to determine whether and how such processes may be re-engineered or otherwise improved (e.g., electronic filing) in order to reduce costs while maintaining or improving accuracy, timeliness, security and responsiveness.

Carried out on behalf of the three agencies, the study will be completed during the summer of 1996.

Professional Development and Training

Professional Development and Training (PD&T) was given a high priority in 1995-96. A comprehensive training needs analysis has been undertaken and partnerships with potential training suppliers, including financial institutions and universities, are being explored.

Given the rapidly changing financial services environment and the need to adjust to these changes, OSFI will continue to invest in training and development programs.

Human Resources Management

The Human Resources Management Division has responsibility for personnel functions, internal communications, and facilities and materiel management.

As well as providing advice on matters such as staffing, classification, official languages and other personnel matters, the Division has undertaken several new initiatives. Work will be completed in 1997 on a Universal Classification Plan that is designed to simplify and reduce the cost of administering OSFI's classification system. A lifestyle and wellness program has also been established with the objective of

offering information sessions to employees on a variety of health-related issues.

A small Internal Communications Section was established in February 1996 for the purpose of improving communication within OSFI. As well as developing communication plans for various initiatives, the Section provides editing, translation and desktop publishing services to all OSFI employees and is responsible for preparing and publishing the quarterly employee newsletter.

Finance

The Finance Division is responsible for all matters related to OSFI financial management, including developing and maintaining corporate financial policies, practices, and systems. It manages OSFI's annual resource planning and allocation exercises, prepares the Business Plan and Estimates documents required by Treasury Board and prepares the annual input for the Public Accounts of Canada. The Division handles all OSFI payments and receipts and maintains an EDP-based accounting and budgetary control system. This Division also administers the *Civil Service Insurance Act* and Part I of the *Excise Tax Act*.¹

Cost Recovery

Pursuant to provisions of the OSFI Act, expenses incurred by OSFI to administer the Acts respecting the supervision of financial institutions are recovered from those institutions through an assessment process. The method of distributing expenses among institutions subject to a particular Act is prescribed by the *Assessment of Financial Institutions Regulations*. In general, costs are distributed on

the basis of institution size, with provision for minimum assessments, which vary by type of institution. The assessments are payable quarterly, based on a forecast for the year with a final year-end adjustment.

The Division develops and administers systems that permit the identification and allocation of expenses among industries for determining the assessment to be levied against individual institutions and for managing the related billing and accounts receivable process.

Cots of administering the *Pension Benefits Standards Act, 1985* (PBSA, 1985) are recovered from pension plans subject to that legislation by means of an annual fee, based on plan membership. In addition, OSFI recovers costs incurred in providing services to CDIC and the Canada Pension Plan (CPP).

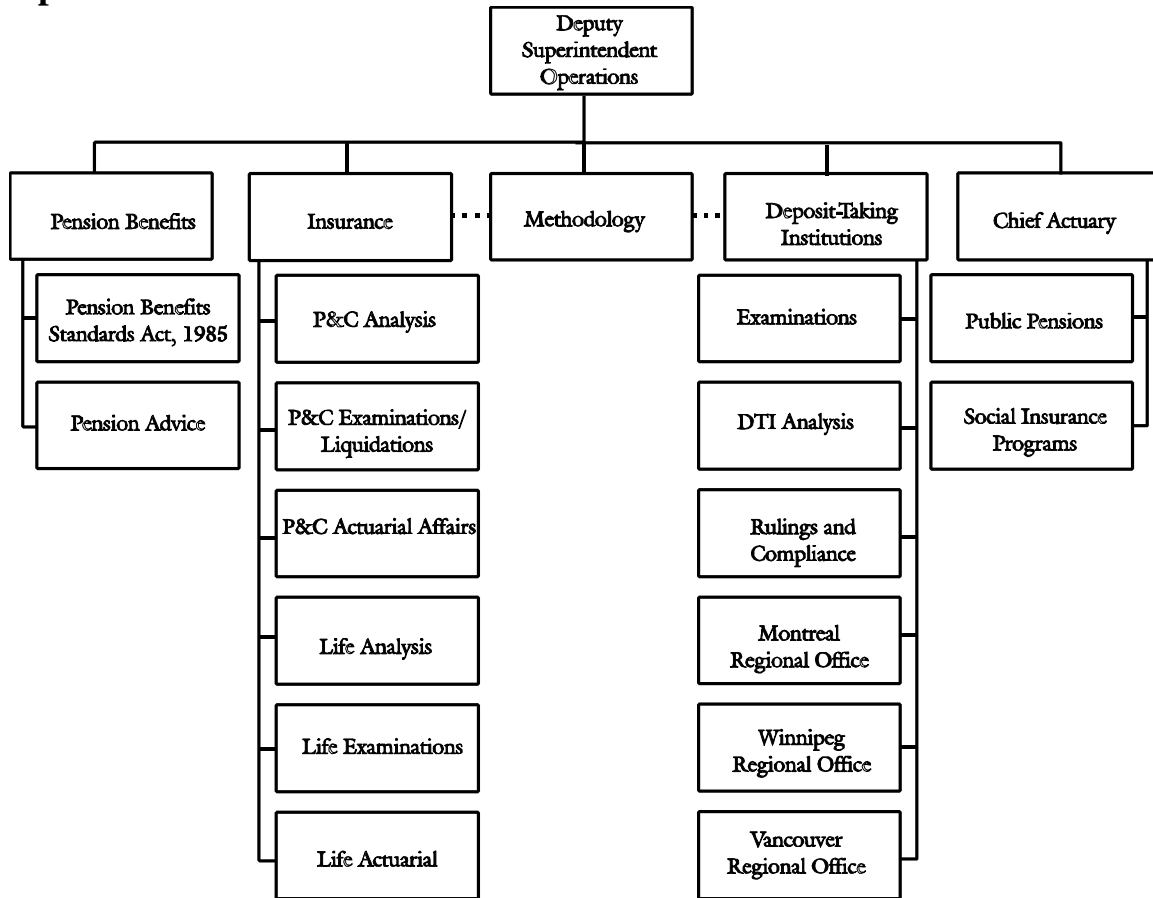
In accordance with provisions of the OSFI Act, the revenues generated from the foregoing are available to OSFI to meet operational expenses related to its supervisory functions.

A small portion of OSFI's resources are devoted to the provision of actuarial services and advice to the Government. Funding for these activities is provided through annual parliamentary appropriations.

¹ Under Part I of the *Excise Tax Act*, a Canadian resident who purchases insurance from a company not authorized to transact insurance business in Canada, or purchases insurance from a company authorized to transact insurance business in Canada through a broker outside of Canada is subject to a 10 per cent tax on the premium paid or payable.

Expenditure by Object			
(Dollars)			
		1994-95	1995-96
Personnel			
	Salaries and wages	23,304,755	23,798,314
	Contributions to employee benefit plans (1)	2,902,040	2,868,760
	Contributions to employee benefit plans (2)	889,523	1,260,777
		27,096,318	27,927,851
Goods and Services			
	Transportation and communications	1,672,937	1,763,282
	Information	576,540	572,066
	Professional and special services	8,069,711	5,933,942
	Rentals 2,158,290	2,313,827	
	Purchased repair and maintenance	318,395	339,211
	Utilities, materials and supplies	666,597	759,832
	Other	72,039	19,693
		13,534,509	11,701,853
	Total Operating Expenses	40,630,827	39,629,704
Capital			
	Minor capital expenditures	1,211,910	1,057,800
	Total Expenditures	41,842,737	40,687,504
Less:	Revenue credited to the vote	41,390,161	36,481,057
	Net Program Expenditures	452,576	4,206,447
Revenue			
(Dollars)			
		1994-95	1995-96
Revenue credited to the vote			
	Cost recovery re:		
	Supervision of financial institutions	37,143,448	32,182,545
	Supervision of pension plans	2,911,116	2,774,457
	Services provided to:		
	Canada Deposit Insurance Corporation	433,360	153,404
	Canada Pension Plan	687,451	1,311,203
	Other	214,786	59,448
	Total Revenue credited to the vote	41,390,161	36,481,057
(1)	Includes the employer's contribution towards Unemployment Insurance, Canada and Quebec Pension Plans, Superannuation and Death Benefits.		
(2)	Includes the employer's contribution towards provincial and private health plans. In 1995/96, this cost increased by 42% as a result of Treasury Board changing the calculation methodology.		

Operations Sector



In August 1995, as a part of the OSFI reorganization, the supervisory work for all federally-regulated financial institutions and pension plans was centralized within four divisions in a new Operations Sector. The four divisions are: Deposit-Taking Institutions, Insurance, Pensions, and Actuarial Services. The work of the first three divisions includes the registration, analysis of financial returns, examinations, and reviews for compliance that are carried out to assess the financial strength of individual institutions and pension plans. The fourth division, Actuarial Services, provides actuarial services to the federal government ranging from valuation of public sector pension plans to periodic reviews and studies of the Canada Pension Plan.

The new structure has improved consistency in decision-making with respect to financial institutions and has enhanced the supervision of financial services conglomerates. In addition, there have been increased efforts, at the international level, to work toward greater co-operation with regulators in other jurisdictions and to co-ordinate efforts more effectively. This is most directly seen in the supervision of banks, but similar work is also underway with respect to the supervision of insurance companies.

OSFI continues to deal with consolidation and rationalization of the financial services sector. This has affected all aspects of the supervisory work.

The introduction of the Guide to Intervention for Federal Financial Institutions and the Supervisory Guide applicable to Federally Regulated Insurance Companies has improved the transparency of supervision. The disclosure of this process and the actions which are considered at each of the stages of intervention have improved understanding of OSFI's supervisory role.

A program for enhanced disclosure of insurance company financial information and actuarial liabilities has been developed in co-operation with the Canadian Life and Health Insurance Association, the Insurance Bureau of Canada, the Canadian Institute of Actuaries and the Canadian Institute of Chartered Accountants.

OSFI continues to work closely with the Canada Deposit Insurance Corporation (CDIC) and deposit-taking institutions on compliance with, and review of, the CDIC Standards of Sound Business and Financial Practices, together with the Standards Assessment and Reporting Programme (SARP).

OSFI works co-operatively with the life insurance industry on Standards of Sound Business and Financial Practices for life insurance enterprises. Substantial progress was made in this project over the past year and the issues of compliance and enforcement will be addressed in the forthcoming year. Similar standards will subsequently be developed for property and casualty companies.

During 1995 OSFI participated in the Committee on the Future of the International Association of Insurance Supervisors (IAIS), in the Organization for Economic Cooperation and Development (OECD) Insurance Committee, and in the Tripartite Group on the Supervision of Financial Conglomerates. These activities have led OSFI to become a signatory to the IAIS Agreement on Information Sharing as well as to adopt a more integrated approach to the examination of domestic conglomerate financial institutions.

Deposit-Taking Institutions — Year in Review

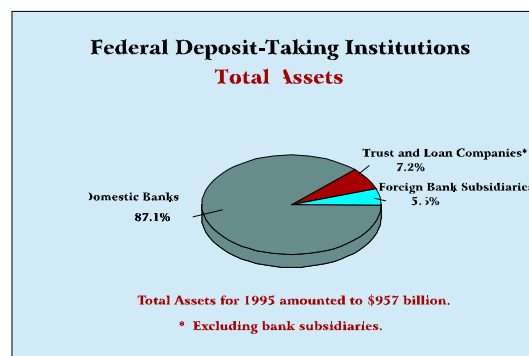
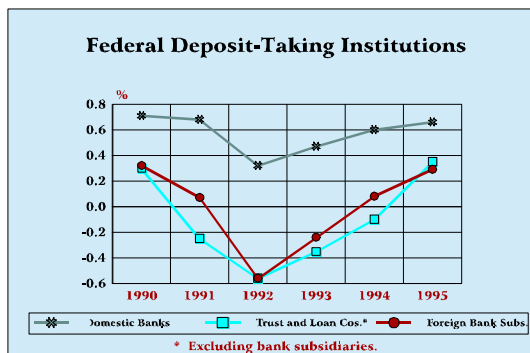
Deposit-taking institutions reported improved trends through 1995 as assets continued to grow, profits reached record highs and loan loss provisions continued to decline.

Improved asset quality, supported by reduced loan loss provisioning requirements and continued expansion of non-interest revenues, has enhanced the equity base of most banks and other deposit-taking institutions. Canadian banks have reduced the amount of their impaired assets by over \$13 billion or 45 per cent since the peak levels were recorded in 1993. Total impaired assets as at October 31, 1995, amounted to \$15.9 billion, with the allowance for impairment amounting to 55.5 per cent of the total impaired assets. Net impaired assets stood at 0.78 per cent of year-end assets and provisions for loan losses for 1995 were 0.33 per cent of average assets, the lowest level in several years. In 1995, other income reported showed continuing growth, amounting to \$11.2 billion or 35 per cent of total revenues.

Domestic banks reported aggregate net profits of \$5.2 billion in 1995 and year-end assets of \$833.9 billion. Compared with 1994, net profits increased by \$922 million or 21.5 per cent and assets grew by \$82.7 billion or 11 per cent.

Foreign bank subsidiaries also recorded improved results on an industry-wide basis, continuing a trend that began in 1994 after several unprofitable years. Aggregate net profits of foreign bank subsidiaries were \$199.5 million and year-end assets totalled \$70.6 billion. When comparing these results to 1994, aggregate net profits increased by \$151.0 million or 311.5 per cent and assets increased by \$5.5 billion or 8.4 per cent.

Canadian domestic banks have an average capital ratio marginally below 10 per cent and foreign bank subsidiaries have an average capital ratio slightly in excess of 10 per cent. Capital ratios continue to exceed the minimum requirements of the Bank of International Settlement capital rules which came into force in 1988.



The Canadian banks, primarily the big six banks, continue to increase their volume of activity in derivatives, particularly in over-the-counter (OTC) instruments. The largest proportion of derivative products being traded by Canadian banks continue to be foreign exchange and interest contracts with remaining terms to maturity of less than five years. At October 31, 1995, the notional value of OTC derivative contracts held by the big six banks totalled \$3.7 trillion. The credit equivalent amount of these contracts, which represents the current replacement cost plus an estimate of the potential increase in replacement values over the remaining lives of the contracts, totalled \$24.2 billion for interest rate contracts and \$52.8 billion for foreign exchange contracts.

Trust and loan companies, excluding those owned by the banks, reported aggregate net profits of \$190 million compared to profits of \$42 million in 1994 and losses of \$259 million in 1993. Improved asset quality and lower requirements for provisioning contributed to the improved performance.

Results in the trust industry are expected to show continued improvement. However, this segment of the financial sector continues to experience consolidation. Trust companies are seeking specialized market niches to achieve enhanced profitability.

Deposit-Taking Institutions Branch

The Deposit-Taking Institutions Branch is responsible for overseeing banks and federally incorporated trust, loan and investment companies, and co-operative credit associations. This includes examining and monitoring institutions for solvency, processing applications for regulatory consent and ensuring compliance with governing legislation. The Branch also undertakes examinations of certain provincially chartered institutions through federal-provincial agreements or as an agent of the Canada Deposit Insurance Corporation. Supervisory activities are conducted on a cost-recovery basis.

As at March 31, 1996, there were 11 domestic banks, 47 subsidiaries of foreign banks, 17 loan companies, 31 trust companies and 7 co-operative credit associations.

Examinations

There are five Divisions responsible for monitoring and examining deposit-taking institutions, two in Toronto, and one in each of Montreal, Winnipeg and Vancouver.

The Examinations Divisions apply the principles and practices outlined in the OSFI Examination Framework. This risk-based examination process consists of three phases: planning, on-site work and reporting. A process of monitoring is carried out in a systematic manner throughout the year and serves to focus the on-site

examination work in the areas of major risk exposure in each institution. While the degree of focus on asset quality was lessened somewhat in 1995 because of the improved asset quality throughout the industry, OSFI continued to engage the services of credit consultants. During the past year, the credit reviews have focused on new lending activity and business concentration.

During 1995 and into 1996, additional examination focus is being placed on the assessment of the internal corporate governance, risk management and control procedures that exist within the deposit-taking institutions to ensure that each institution maintains a strong control culture.

Analysis

The Analysis Division was formed in 1995 and is currently in a transition phase. It continues to perform many of the duties resident in the former Compliance Division while planning for and performing some new responsibilities. The mandate for the Analysis Division is to identify, at an early stage, potential areas of systemic or institution-specific risk related to federally regulated deposit-taking institutions, and to carry out financial analysis of the industry and individual companies, using advanced technology in support of this goal.

The Analysis Division also supervises those deposit-taking institutions whose financial condition is of the greatest concern

to OSFI and is the Operations Sector's primary contact with CDIC. Monthly meetings are held between representatives of the Division and CDIC to discuss matters of mutual concern and to co-ordinate appropriate action.

The Division has assumed responsibility for the development and maintenance of the automated Financial Information Reporting System (FIRS) which provides OSFI with timely information to monitor effectively the financial status of deposit-taking institutions. Work is currently progressing on the next phase of FIRS that involves the incorporation of trust and loan company data into the system.

Rulings and Compliance

The Rulings and Compliance Division processes applications for regulatory consent from banks, both domestic and foreign, trust and loan companies and investment companies. The Division also monitors activities of these institutions for compliance with legislation and OSFI guidelines and provides OSFI and financial institutions with rulings on legislation and guidelines.

In 1995-96, the Division processed numerous applications for incorporations of new financial institutions, acquisitions of substantial investments and other corporate governance matters. Where required, the Division consulted with other divisions in OSFI to ensure that policy issues were resolved consistently and appropriate information was considered with each application.

Insurance

Life Insurance — Year in Review

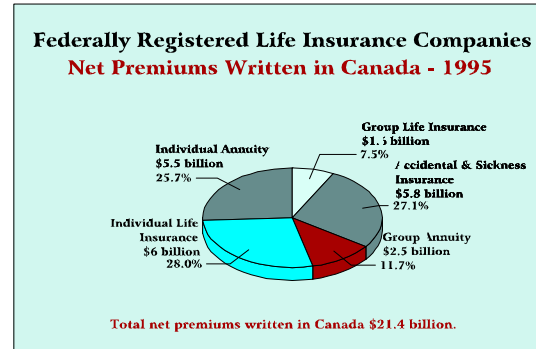
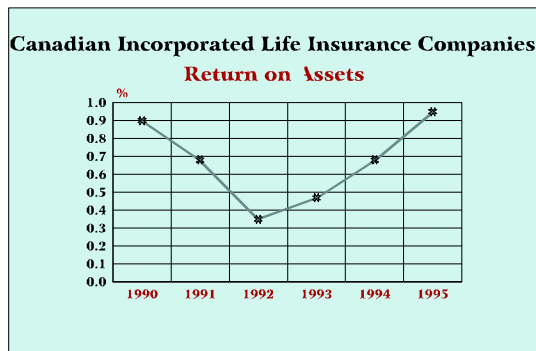
Rationalization continued to occur in the life insurance industry during 1995, albeit at a slower pace, in the face of slow economic recovery and tough competition. OSFI processed 14 applications for ministerial approval in connection with business amalgamations, mergers and transfers of blocks of business compared to 24 such requests in 1994, and 23 in 1993.

Return on assets increased from 0.68 per cent for 1994 to 0.95 per cent for 1995 and return on equity from 7.2 per cent for 1994 to 9.6 per cent for 1995. Although the trend is up over the last two years, the 1995 results are still far below 1989 actual experience at which time Canadian life insurers had a return on assets of 1.09 per cent and a return on equity of just below 15 per cent. The improvement over the past two years is primarily due to a continued decrease in the levels of foreclosed real estate and loan losses on mortgage portfolios.

The total net premium income in Canada for federally registered companies, derived from all lines of business, increased from \$19.7 billion in 1994 to \$21.4 billion in 1995. The net premium income in Canada for life insurance products (individual and group combined) also increased from \$7.1 billion to \$7.6 billion at year end 1995. Individual business generated net premiums of \$6.0 billion in 1995 compared to \$5.5 billion in 1994, while group life insurance business was stable at \$1.6 billion.

Annuity products sold by life insurance companies are primarily in the form of individual and group retirement savings products. Results for 1995 showed a 6.6 per cent increase in net premiums (\$7.5 billion in 1994 to \$8.0 billion in 1995).

Life insurers provide accident and sickness insurance coverage in the form of extended health care benefits, loss of income coverage for long term disability,



dental coverage and risk coverage against accidental death and dismemberment. Net

premium income in Canada arising from accident and sickness business has exhibited significant growth, increasing in 1995 by 13.7 per cent to \$5.8 billion from \$5.1 billion the previous year.

In addition to their business in Canada, Canadian companies have major insurance operations outside Canada. They reported net premium income from branch operations outside Canada of \$6.6 billion in 1995. By comparison, foreign companies and fraternal benefit societies operating in Canada on a branch basis reported net premium income in Canada of \$4.5 billion.

Canadian life insurance companies and societies are required to maintain adequate capital. Foreign companies transacting business in Canada on a branch basis must maintain an adequate margin of assets in Canada to cover their Canadian liabilities. For these purposes, the Superintendent has established minimum standards — Minimum Continuing Capital and Surplus

Requirements (MCCSR) for Canadian incorporated entities and Test of Adequacy of Assets Margin requirements (TAAM) for foreign entities. These capital and margin requirements are determined by applying risk factors to the business and investments of the companies.

MCCSR and TAAM have two main components. The first is a risk-based formula for determining how much capital or margin is required. The second is a definition of capital or margin available to meet the risk-based requirement. The results for 1995 show a continued improvement in the average ratio of available capital to required capital for Canadian companies and societies. Foreign companies and societies transacting business on a branch basis also continue to maintain a healthy average margin of assets in Canada to cover their Canadian liabilities.

Life Insurance Division

The Life Insurance Division has overall responsibility for the supervision of federally registered life insurance companies, branches of foreign life insurance companies, fraternal benefit societies and branches of foreign fraternal benefit societies.

As of March 31, 1996, there were 128 federally registered life insurance companies (56 federally incorporated and 72 foreign companies) and 30 fraternal benefit societies (13 federally incorporated and 17 foreign societies).

Corporate Analysis

The Corporate Analysis Section reviews and analyzes all applications for the federal incorporation and registration of entities wishing to carry on life insurance activities in Canada. At the federal level, the Minister of Finance authorizes applicants to carry on business in Canada based on the recommendations made by OSFI after careful analysis of the capital adequacy, business plans and earnings projections submitted by the applicant. The Section also reviews requests concerning investments, share issues, charter amendments, changes to the classes of insurance a company is authorized to insure, business transfers, mergers, amalgamations, sale of assets, related party transactions and reinsurance outside the ordinary course of business.

Actuarial Analysis

Operations Analysis

The *Insurance Companies Act* requires companies and societies to file annual returns and other supporting material to OSFI. The Operations Analysis Section is responsible for designing changes to the annual returns and related instructions. The Section carries out analytical reviews of these filings, including a detailed analysis, the calculation of early-warning tests, and trend analyses to identify companies that may be heading for financial difficulties. The Section is responsible for the ongoing monitoring of a company's financial condition. Corrective actions arising from on-site examinations and analysis processes are monitored by the Section. Based on the review of the company's financial position, a risk-based analysis is carried out to assist the examiners in focusing the on-site examination on areas of greatest concern.

Examinations

The Examinations Section conducts periodic on-site examinations of companies and societies. Examiners review a company's financial and self-governance documentation, and internal and external audit reports. They interview senior company executives regarding business plans, determine compliance with the *Insurance Companies Act* and regulations and assess the company's financial condition. OSFI reports findings to senior company officials. Corrective action is discussed. Examiners issue to the company, at the end of each examination, a management report reflecting the concerns identified and their recommendations.

The Actuarial Section reviews the actuarial reports required under the *Insurance Companies Act* and discusses the findings

with the company's appointed actuary. The appointed actuary must report the assumptions and methods used in calculating the reserves the company must carry to cover future benefits. In this process, OSFI actuaries discuss with company officials the background of valuation assumptions and review the result of the calculations performed in establishing the liabilities.

On behalf of Revenue Canada, the section also verifies the Maximum Tax Actuarial Reserves of life insurance companies and fraternal benefit societies in accordance with Regulations 1401 to 1404 of the

Income Tax Act and provides advice to other government departments on actuarial services and life contingencies.

Securities Administration

All foreign insurance companies and fraternal benefit societies operating in Canada on a branch basis are required to maintain assets in Canada, vested in trust with an approved trustee, sufficient to cover their statutory liabilities in Canada. Officers in this unit monitor and ensure the adequacy of assets vested by both life and property and casualty companies.

Property and Casualty Insurance — Year in Review

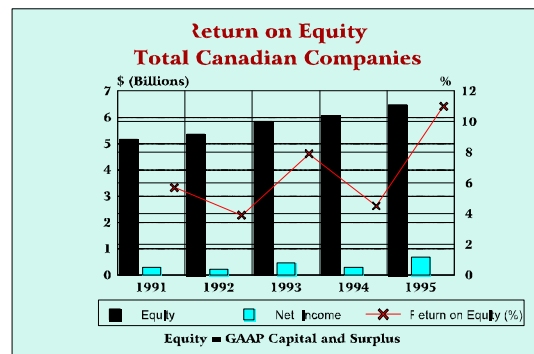
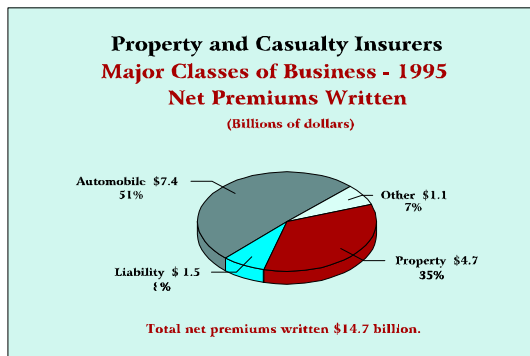
In this reporting period, four new federal insurers received orders authorizing the insuring of risks. Ten incorporated and foreign branches withdrew from Canada and one foreign branch was placed into liquidation.

Net premiums written by federally registered property and casualty companies increased to \$14.7 billion in 1995, from \$14.0 billion in 1994. Net profits increased to \$1.2 billion in 1995, from \$658 million in 1994. The major reasons were a substantial reduction in underwriting losses to \$575 million in 1995, from \$919 million in 1994, and improved investment income.

Canadian federally registered property and casualty companies recorded an 11 per cent return on equity compared to 5 per cent in 1994. Solvency levels for Canadian

companies increased to 33 per cent compared to 30 per cent in 1994 when measured by expressing capital and surplus as a percentage of liabilities and required assets.

Section 516 of the *Insurance Companies Act* requires Canadian property and casualty insurance companies to maintain assets that exceed liabilities and margins by a prescribed amount. On average, required assets for Canadian companies exceeded the minimum levels required under section 516 by 20 per cent at the end of 1995. This compares to 13 per cent in 1994 and 19 per cent in 1993.



Property and Casualty Insurance Division

The Property and Casualty Insurance Division has overall responsibility for the supervision of federally registered property and casualty companies and branches of foreign insurance companies. The Division also conducts examinations of Manitoba and Newfoundland based provincially registered companies and some insurance pools.

In this reporting period, the number of federally registered and supervised property and casualty insurance companies fell from 231 to 224. On December 31, 1995 there were 97 companies incorporated in Canada and 127 foreign companies operating on a branch basis.

Analysis

The Analysis Section has one Corporate and two Operations Analysis groups. The Corporate Analysis group evaluates applications for the incorporation and registration of insurance companies, and also handles requests for approval of such matters as amalgamations, changes of ownership, transfers of business and withdrawals. Operations Analysis monitors and reviews federally registered companies on an ongoing basis. This includes reviewing operating results, analysing financial ratios and discussing findings with company officials. Examiners and actuaries use information gathered by the analysts in carrying out the risk analyses used in defining the scope of on-site examinations. The Section also makes recommendations to management on regulatory action that may be required. During 1995, corporate analysts reviewed and obtained approvals for 61

requests involving incorporations and registrations, internal restructuring, ownership changes, business portfolio transfers and withdrawals. Analysts also considered and finalized requests involving 25 amendments to capital by-laws and to licences to transact business.

Examinations/Liquidations

With the help of examiners in Vancouver, Winnipeg and Montreal, the Examinations/Liquidations Section carries out on-site examinations and oversees the winding-up of companies in liquidation.

On-site examinations are conducted to assess a company's financial position, its compliance with legislation and its prospects for the future. OSFI reports the findings to senior company officials and requires companies to take corrective action where necessary.

Actuarial Affairs

The Actuarial Affairs Section reviews the actuarial reports completed by the appointed actuaries of property and casualty insurance companies and carries out such tests, analysis and discussions as may be required to be satisfied that the reserves and provisions held by the companies are appropriate.

Pension Benefits

Pension Benefits Standards

The Pension Benefits Standards Section has responsibility for the supervision of some 1,100 federally regulated private pension plans.

The Analysis Group reviews and analyses all applications for registration, transfers, mergers and plan terminations. The Group also reviews annual returns, including audited and certified financial statements and actuarial valuation reports for defined benefit plans. Pension plans which do not meet compliance requirements are required to file information more frequently and are subject to closer supervision.

During 1996, the Section will develop a rating system which is geared toward early intervention in the case of problem plans.

OSFI undertakes on-site examinations of about 30 plans each year. Generally, the plans selected for on-site examination are those with low solvency ratios, late report filing records, frequent complaints from members, or recent major amendments. In addition, a small number of plans is selected at random each year for on-site examination.

Pension Advice

The Pension Advice Section provides actuarial advice to Revenue Canada and to the Department of Indian Affairs and Northern Development (DIAND). The Section advises the Minister of Revenue on the eligibility of deductions from income of certain employer contributions to pension plans established for their employees.

During the 1995-96 fiscal year, the Pension Advice Section gave advice on 1,504 requests from Revenue Canada. For 43 of these requests, the Pension Advice Section advised Revenue Canada to disallow part or all of an amount in respect of which approval had been requested.

Actuarial Services

The Chief Actuary and his staff provide a range of actuarial services and advice to the Government of Canada in respect of public insurance and pension programs and, in accordance with the *Public Pensions Reporting Act* and the *Canada Pension Plan Act*, prepare statutory actuarial reports on the pensions covered by these Acts for tabling in the House of Commons.

2 Following discussions with Revenue Canada, the Pension Advice Section was transferred to Revenue Canada on April 1, 1996. Work related to the DIAND Band Employee Benefit (BEB) program remains within OSFI.

The Chief Actuary plays a key role in providing advice and analysis of public pensions to the Treasury Board, the Department of Finance and Human Resources Development Canada on issues such as the distribution and accounting of surplus in pension plans for government employees. As well, in the context of the quinquennial review of the Canada Pension Plan (CPP) by the federal and provincial Ministers of Finance, hundreds of proposals for changing the financial scheme and the benefit design were analysed.

Public Sector Insurance and Pension Programs

The Public Sector Insurance and Pension Programs Section carries out, for Public Accounts and actuarial funding purposes, periodic valuations of insurance and pension plans sponsored by the government. These include plans for the Public Service, the Canadian Forces, the RCMP, Members of Parliament and federally appointed judges. It also conducts valuations of special self-supporting insurance programs now closed to new entrants but formerly open to civil servants, war veterans and RCMP members.

During this fiscal year, actuarial reports on the pension plan and the insurance plan covering members of the Canadian Forces were completed and tabled in the House of Commons. Actuarial reports on the superannuation plan covering Members of Parliament and federally appointed judges were prepared for transmittal to the President of Treasury Board for tabling in the House of Commons.

The Section continued to play a key role in the implementation and administration of pension reforms arising from Bill C-55 (Retirement compensation arrangements, pension splitting on spousal union breakdown and optional survivor benefits) and from Bill C-85 which modified the Members of Parliament pension plan. New projects included the valuation of post-retirement benefits and the proper determination of transfer values upon termination of employment.

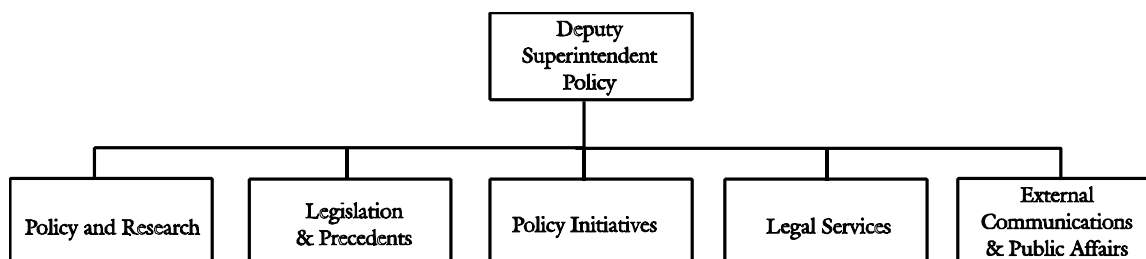
Social Insurance Programs

The Social Insurance Programs Section is responsible for periodic statutory actuarial valuations of the CPP and of the Old Age Security program and for actuarial advice on these plans.

The Valuation Unit played a key role in the quinquennial CPP review process by providing advice to the government on funding the plan and by preparing financial projections on the effect of plan changes proposed by various governmental and private groups.

The Social Policy Unit continued its involvement in a five-year project, sponsored by the Department of Human Resources Development, for the development of a micro-simulation model which determines the financial effect on individuals of CPP policy proposals once analysed in aggregate by the Valuation Unit.

Policy Sector



The Policy Sector was created in 1995-96 to bring together work on policy development and related consultation across OSFI. It also assumed responsibility for developing and drafting the technical aspects of financial services industry legislation. The Sector develops policies, issues guidelines, works on rulings that set precedents, develops legislation and regulations, represents OSFI in various international groups, including the Basle Committee on Banking Supervision, and leads various special studies.

The Sector comprises five divisions — Legislation and Precedents, Policy Initiatives, Policy and Research, Legal Services, and External Communications and Public Affairs.

Legislation and Precedents

The Legislation and Precedents Division develops legislation and regulations. The Division plays a lead role in OSFI's contribution to the 1997 legislative review, it interprets legislation, regulations and guidelines, and deals with cases that set precedents or that raise policy issues, while also co-ordinating assigned policy studies for OSFI.

Policy and Research

The Policy and Research Division develops supervisory and accounting policies for federally regulated financial institutions and insurance companies. The Division also provides financial analysis in support of work of OSFI and is heavily involved in international activities in the Bank for International Settlements (BIS).

During 1995-96, guidelines were issued on capital adequacy, derivatives best practices, exposures to designated countries, derivatives disclosure, liquidity and minimum continuing capital and surplus requirements.

Legal Services

The Legal Services Unit consists of lawyers who are members of the Department of Justice.

The Unit provides or obtains all legal advice and legal services required by OSFI, including legal advice on the interpretation of statutes, regulations, and other legal instruments and the preparation of legal documents. The Unit also administers access to information and privacy legislation as it applies to OSFI.

External Communications and Public Affairs

The External Communications and Public Affairs Division is responsible for developing and implementing external communications strategy, media and parliamentary relations and dealing with complaints and enquiries from the public about federally regulated financial institutions.

Policy Initiatives

The Policy Initiatives Division is responsible for preparing strategies and approaches to selected policy areas and for recommending policy direction. Within these assigned areas, the Division is responsible for the preparation of legislation, regulations or guidelines as required. Currently, the Division spearheads work on policies regarding federally regulated pension plans and demutualization and identifies emerging and longer range issues and implications for regulatory policy and operations.

The Secretary of State (International Financial Institutions) tabled a paper in June 1996 dealing with the 1997 Review of Financial Institutions Legislation. As part of the 1997 review process, the Policy Sector will lead the development of proposals for changes in some of the more technical parts of the legislation and in areas such as corporate governance and foreign entry. This will involve developing proposals to correct weaknesses that have been identified since 1992, and adapting and simplifying regulatory practices in areas such as the self-dealing regime and minority investment regulation. The Sector will take a lead role in preparing the resulting legislation and regulations, and conducting related stakeholder consultation. Particular attention in the short term will be given to processing regulations to provide more flexibility to institutions to make minority investments and to developing a best practices guideline on corporate governance. On the legislative front, the Sector was significantly involved in the development of Bill C-15.

On January 23, 1996 the Secretary of State (International Financial Institutions) announced a review of the *Pension Benefits Standards Act, 1985*. The prudential and regulatory provisions have not been reviewed since 1985. The Sector played a lead role in the development of a policy paper and related proposals for legislative and regulatory change. These will strengthen the regulatory framework, improve disclosure to plan members and permit the federal government to enter into a greater range of inter-delegation agreements with provincial regulators to streamline regulation.

The Sector is leading a review of emerging risks. Increasingly, developments in the

financial market and in the nature and scope of business products have made it clear that although credit risks continue to be important, other risk factors are gaining importance. Many federal financial institutions are revamping their own risk assessment and control procedures and OSFI must adapt to these changes. This project involves the comprehensive identification and prioritization of risks and the identification of the regulatory tools available to deal with them, including capital requirements, regulations, guidelines, promotion of best practices, system-wide reviews or regular examination efforts. Not all emerging risks deserve intensive focus. In order to maintain cost-effective regulation, it is desirable that these judgements be made with information that is timely and complete. This work will be an important OSFI priority in the coming year.

Increasing use of technology is altering the way financial institutions do business and the kind of businesses they engage in, the products they offer, the risks they are subject to and risk control procedures. The Policy Sector is surveying this issue to develop enhanced capability and appropriate regulatory responses. The Sector will also work with Operations Sector staff to develop a capability to validate simulation models used by institutions to measure trading risk for the purpose of determining required capital. As well, the Sector is playing a leading role in evaluating the regulatory policy implications of electronic cash, or "E-Cash", in a Canadian context and in monitoring some pilot E-cash projects.

of earthquake risk, with the life insurance industry and the Life Insurance Division on development of Standards of Sound Business

A new project undertaken in 1995-96 will develop a better understanding of, and an improved method of tracking, the distribution inside and outside Canada of assets and capital of the major Canadian banks in order for OSFI to develop supervisory policies in this area. Another priority is to create a more consistent framework for making decisions on applications for expanded pledging powers.

Considerable work has also been done in implementing the disclosure requirements of Bill C-15, including reaching agreement on the information that OSFI will make available to the public from information collected for regulatory purposes. The initial drafting work on guidelines that will set out the minimum annual disclosure that the institutions must make publicly available has also begun.

The Sector also dealt with OSFI's responsibilities in responding to complaints and enquiries.

While the Sector is engaged in a variety of projects at any one time, several are particularly important. One relates to the concept of a lead convenor of supervisors for conglomerate groups. This concept is being considered by a small group of banking, securities and insurance supervisors. As Canadian institutions become more active internationally, the need for regulatory co-operation will increase. In addition, OSFI is actively supporting the work of the International Association of Insurance Supervisors. The Policy Sector is also working in co-ordination with the property and casualty industry on better measurement and control

and Financial Practice, and on revisions to MCCSR, the capital rules for life insurance companies. It also works closely with the

Canadian Institute of Chartered Accountants (CICA) in the development of life insurance accounting.

Internationally, staff from the Policy Sector represent OSFI on four working groups of the Basle Committee on Banking Supervision, which meets under the auspices of the Bank for International Settlements (BIS). These groups released final papers on bilateral netting, on refinement and expansion of the capital calculation for derivative transactions, on capital requirements for market risk and, in collaboration with International Organization of Securities Commissions

(IOSCO), a paper on a common minimum reporting framework for derivatives. Members of the Policy Sector assisted in the development of the BIS response to recommendations by the G-7 leaders for closer integration of supervision and regulation of international financial institutions. Policy Sector staff also participate in the Joint Forum on the Supervision of Financial Conglomerates, a recently formed international group with a mandate to develop proposals for improving co-operation and the exchange of information between bank, securities and insurance supervisors.

A number of the initiatives referred to above are described in greater detail in the pages that follow.

Current Issues

Market Risk

In January 1996 the BIS Capital Accord was amended by the Basle Committee on Banking Supervision³ to incorporate market risk. These amendments were also endorsed by the G-10 central bank governors. During 1996-97 OSFI will develop amendments to its capital adequacy guidelines for banks in order to reflect banks' market risks in their minimum capital requirements. Market risk is the risk of losses in on- and off-balance sheet positions arising from movements in market prices (e.g., interest rate risk, equity price risk, foreign exchange risk and commodity price risk). Introducing such capital requirements has become increasingly relevant as banks develop their trading activities and attempt to manage the associated risks.

Beginning January 1, 1998, Canadian banks will be required to have minimum levels of capital for the market risk inherent in their trading activities and the foreign exchange risks and commodity risks arising from their entire operations. To facilitate this, a number of definitions and rules for the scope of application will be developed in the course of 1996-97.

A main feature of the Capital Accord amendment will be to allow banks to use in-house models for measuring market risks as an alternative to an accounting-based reporting and measurement framework. The use of proprietary in-house models to measure market risk for supervisory capital purposes responds to the industry's requests for a regime based more directly on the information used to manage risk and represents a significant innovation in supervisory methods. However, in order to ensure an adequate degree of prudence, transparency and consistency of capital requirements across banks, the Basle Committee has defined a number of qualitative and quantitative criteria for those banks which wish to use proprietary models for capital purposes. This means that OSFI will have to review a bank's internal models against these criteria before the bank is allowed to use its model for reporting market risk capital requirements. The process of model reviews, expected to commence in 1997, will be performed by an OSFI cross-Sector specialized team. During this period OSFI will also consider whether these proposals should be applied to other Canadian financial institutions.

3 The Basle Committee's formal title is the Basle Committee on Banking Supervision. It is a committee of banking supervisory authorities established by the central bank Governors of the Group of Ten countries in 1975, and presently chaired by Dott. T. Padoa-Schioppa, Deputy Director General of the Bank of Italy. It consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States. It usually meets at the Bank for International Settlements (BIS) in Basle, Switzerland. The BIS provides the Committee's Secretariat.

Settlement Risk

In March 1996, the Bank for International Settlements released a report entitled “*Settlement Risk in Foreign Exchange Transactions*” that proposes a comprehensive strategy to contain the risks inherent in current arrangements for settling foreign exchange transactions. The report was prepared under a working group of the Committee on Payments and Settlement Systems (CPSS) of the Group of Ten (G-10) countries and endorsed by the Governors of the G-10 countries. Canada was represented on this working group by the Bank of Canada.

The report notes that the “vast size of daily foreign exchange (FX) trading (estimated at \$1.23 trillion in April 1995), combined with the global interdependencies of FX market and payment system participants, raises significant concerns regarding the risk stemming from current arrangements for settling FX trades.” In compiling the report, current arrangements for settling FX trades at about 80 banks in the G-10 countries (including Canada) were surveyed.

Recommendations contained in the report include a three track strategy over the next two years aimed at:

- **“Action by individual banks to control their foreign exchange settlement exposures**

[The report recommends that] individual banks take immediate steps to apply an appropriate credit control process to their FX settlement exposures. This recognizes the considerable scope for individual banks to address the problem by improving their current practices for measuring and managing their FX settlement exposures.

- **Action by industry groups to provide risk reducing multi-currency services**

[The report encourages industry groups] to develop well constructed multi-currency services that would contribute to the risk reduction efforts of individual banks. [The report takes the view] that such services would be best provided by the private sector rather than the public sector.

- **Action by central banks [and supervisors] to induce rapid private sector progress**

Each central bank [and supervisor], in co-operation, ... will choose the most effective steps to foster satisfactory private sector action ... in its domestic market. [In addition, enhancements to national payment systems will be examined to facilitate private sector efforts.]⁴

Many Canadian banks are active participants in Multinet — a system for Canadian-U.S. dollar netting and settlement

of foreign exchange transactions that is nearing the final stages of development. OSFI fully supports this initiative which will address a number of the concerns outlined in the report. OSFI and the Bank of Canada have notified the banks that a good deal of importance is attached to banks taking action along the lines indicated in the report. OSFI and the Bank of Canada will jointly monitor the progress made and will be following up with the banks over the next year.

Technology

Over the past few years, technological development has proceeded at an ever-increasing rate.

New technological applications allow for virtually instantaneous transmission of information. They also provide unprecedented abilities to manage and interpret information and to market products in a more selective and efficient manner. Accordingly, those enterprises, such as financial institutions, which rely heavily on the use, transmission and marketing of information, are particularly affected by the new technologies.

Technology has been a positive force in the financial institutions sector, making it easier to cut through inefficiencies and restrictions, and enabling financial institutions to design, manufacture, offer and distribute products and services in a more efficient manner. This, in turn, has fostered increased competition, and has provided the consumer with greater choice

in, and, ultimately, greater control over the goods and services consumed. It also provides new means of risk control.

Properly handled, developing technologies such as virtual or Internet banking, electronic cash and smart cards also promise to provide increased benefits to consumers and society in general.

But technology also carries risks. Some of these, such as new distribution vehicles, are merely extensions of existing risks. These may not require the development of new approaches, but may require changes in current approaches, such as changes in examination methodology. Some of the risks, such as money laundering, fraud, and the ability to intercept confidential financial information, while not new, are heightened. Some, such as the creation of electronic money, may present entirely new issues.

It is important to remember that risks related to technology, like other risks to which financial institutions are subject, cannot be eliminated. However, it is vital that they be understood and properly managed. Managing these developing risks will place additional pressures on the management of institutions, which will have to ensure that business strategies, control systems and other internal structures are developed or adapted to meet the new challenges. Management will be required to be increasingly flexible and vigilant in addressing risks arising from technology.

OSFI has recently established an internal

task force which is to consider the current and future effects of technology on the financial services sector. At present, the task force is identifying areas for further review and consideration. Over the course of the next year, the task force will consult with industry participants and representatives, regulators, and other interested parties, to identify and study the risks presented by technological development, and to make suggestions and recommendations for managing such risks and adjusting prudential rules and supervisory approaches as appropriate.

Impaired Loans

In March 1995, OSFI issued a guideline to federally regulated financial institutions that provides application guidance to the standards for the recognition, measurement, presentation and disclosure of impaired loans, restructured loans and foreclosed assets contained in Section 3025 of the CICA Handbook. The guideline was prepared with the assistance of a working group that included representatives from the Canadian Bankers Association, the Trust Companies Association, the Canadian Life and Health Insurance Association and the Canadian Institute of Chartered Accountants. The guideline became effective with the adoption of Section 3025, i.e., for fiscal years commencing on or after February 1, 1995.

Guidance was also provided to federally regulated financial institutions in order to encourage consistent implementation of the new accounting policy for impaired loans.

Derivatives Disclosure

In September 1995, the CICA added Section 3860 on Financial Instruments — Disclosure and Presentation to the Handbook. This Section prescribes certain requirements for the presentation of recognized financial instruments and identifies the information that should be disclosed about both recognized and unrecognized financial instruments. The recommendations of this section are effective for fiscal years beginning on or after January 1, 1996 for all entities except life insurance enterprises. Life insurance enterprises are to apply the recommendations for fiscal years beginning on or after January 1, 1997.

In October 1995, OSFI issued a guideline on derivatives disclosure to all federally regulated financial institutions. The guideline was prepared with the assistance of a working group including representatives from the Canadian Bankers Association, the Trust Companies Association, the Canadian Life and Health Insurance Association, the Insurance Bureau of Canada and the Canadian Institution of Chartered Accountants. While Section 3860 applies to all financial instruments including loans, debt and equity securities, financial liabilities and derivatives such as financial options, futures and forwards, interest rate swaps and currency swaps, OSFI considered it necessary, based on public concerns and confusion about the risks associated with them, to provide specific guidance relating to derivatives. Therefore, the objective of the guideline is to provide guidance so that federally regulated financial institutions will make appropriate and consistent disclosure of key information relating to their derivatives activities.

The effective date for most of the disclosures required by the guideline is for fiscal years commencing on or after

November 1, 1995, with disclosure of interest rate risk, financial assets carried at an amount in excess of fair value, and hedges of anticipated future transactions being required with the effective date of Section 3860.

Earthquake Risk

The prospect of a catastrophic earthquake in seismologically-active regions of Canada has far-reaching implications for government policy and the national economy. In its role as regulator of federally registered financial institutions, OSFI has a particular interest in ensuring that the property & casualty (P&C) industry is well prepared to cope with the claims that would follow a catastrophic earthquake event.

OSFI, industry groups and other regulators are working together on a number of fronts to respond to the risks posed by such an event. To this end, a Task Force group, led by OSFI, was formed in June 1995 and has met subsequently to consider actions needed. A number of initiatives have already been taken to enhance the preparedness of the P&C industry for such an event.

Following an internal actuarial review, OSFI believes that there is a gap between estimated catastrophic losses following a major earthquake and the industry funds available to meet those losses (principally a P&C company's capital and surplus, its reinsurance coverage and any earthquake actuarial reserves it may have established).

A number of Probable Maximum Loss (PML) models are being used by P&C companies to calculate their estimated losses following a major earthquake. These models produce divergent results because of variations in underlying assumptions and data inputs. A sub-group of the Task Force met in early 1996 to consider narrowing some of these differences. OSFI intends to issue a draft "Sound Practices" guideline document on this subject to the industry for comment in 1996. The document outlines OSFI's minimum expectations for inclusion within a PML model. Final implementation of the guideline is projected for 1997.

OSFI has also surveyed the industry on its approach to earthquake risk during 1996 via a comprehensive questionnaire. The questionnaire is designed to learn more about existing earthquake loss estimation practices, catastrophic reinsurance arrangements, underwriting methods, data collection and management, as well as claims and financial management. Information gathered from this exercise will be utilized in the dissemination of a "Sound Practices" guideline document for reinsurance practices and other possible areas.

Pension Review

The *Pension Benefits Standards Act, 1985* (PBSA) governs private pension plans established in respect of employees engaged in a work, undertaking or business that is subject to federal jurisdiction, such as banking, inter-provincial transportation or telecommunications. Pursuant to the PBSA, OSFI administers approximately 1,100 plans, representing some 10 per cent of the asset value of all private pension plans in Canada.

It is anticipated that the Secretary of State (International Financial Institutions) will release a policy paper in July 1996 entitled "*Enhancing the Supervision of Pension*

Plans Under the Pension Benefits Standards Act, 1985". OSFI is acting as the lead agency in developing the policy package and will continue in this lead role as the package proceeds.

Changes are recommended to ensure that the supervisory regime remains up-to-date and effective and is more reflective of today's environment. The policy paper focuses on changes which are designed to address supervisory and prudential issues.

The policy paper is expected to include:

- Enhancement to plan governance to place more emphasis on the importance of the duties and responsibilities of plan administrators and trustees and to allow plan members to have more access to the administration of their plan.
- Implementation of enhanced powers of the Superintendent to intervene in the affairs of a pension plan, short of plan termination. Coincident with these increased powers, OSFI is developing a *Guide to Intervention* which will describe in general terms what range of supervisory activities OSFI may take as the financial condition of a pension plan deteriorates.

- Requirements for more disclosure from the employer to be provided to plan members on the financial condition of the plan.
- Alternatives for enhancing funding regulations. A range of possible changes to the funding regulations will be included in the policy paper, and consultation with interested parties will commence.
- Pension plan investment policies will be enhanced through the issuance of a guideline to assist administrators in developing appropriate investment policies and to embrace the prudent portfolio concept within the PBSA legislation similar to financial institutions legislation.

Coupled with the PBSA enhancements, OSFI's mandate, contained in the *OSFI Act*, would also be revised to place less emphasis on activities which are more appropriately the responsibility of plan administrators. The amendments to the OSFI mandate would recognize that a reasonable balance must exist between the expectations of plan members that obligations will be met and the role of the regulator in assessing whether such promises can be met. The mandate changes would also help clarify that it is the responsibility of the administrator of a plan to ensure continuing compliance with the *PBSA* and regulations, to oversee the operation of the plan and to deal with problems that may emerge.

Complaint Handling

In compliance with existing legislation, financial institutions must have procedures in place for dealing with complaints and must designate an office or employee of the institution to be responsible for implementing those procedures. These procedures are filed with OSFI.

During this fiscal year, the External Communications and Public Affairs Division received 3,113 complaints and 11,194 enquiries. The nature of these complaints and enquiries is shown below:

Approximately 75 per cent of the complaints received from the public were referred back to the individual institutions involved and were handled within the institutions' internal complaint handling mechanisms. Approximately 25 per cent of the complaints and most of the enquiries were handled internally by OSFI staff.

	Banks	Trust	Life	P&C	Pensions	Other
Enquiries	4,295	739	1,036	805	996	3,323
Complaints						
Cost of Borrowing	24	1	0	0	0	0
Service Charges	185	23	1	0	0	4
Quality of Service	168	24	7	1	1	3
Small Business	81	1	0	0	0	1
Legal/Contractual						
Products/Issues	1,314	186	867	130	23	68

Regulated Institutions (as at March 21, 1996)

Banks

ABN AMRO Bank Canada
 Amex Bank of Canada
 B.C. Bancorp*
 Banca Commerciale Italiana of Canada
 Banco Central Hispano - Canada
 Bank of America Canada
 Bank of Boston Canada
 Bank of China (Canada)
 The Bank of East Asia (Canada)
 Bank of Montreal
 The Bank of Nova Scotia
 The Bank of Tokyo Canada
 Banque Nationale de Paris (Canada)
 Barclays Bank of Canada
 BT Bank of Canada
 Canadian Imperial Bank of Commerce
 Canadian Western Bank
 The Chase Manhattan Bank of Canada
 Chemical Bank of Canada
 Cho Hung Bank of Canada
 Citibank Canada
 Continental Bank of Canada*
 Cr dit Lyonnais Canada
 Credit Suisse Canada
 Dai-Ichi Kangyo Bank (Canada)
 Daiwa Bank Canada
 Deutsche Bank (Canada)
 Dresdner Bank Canada
 First Interstate Bank of Canada*
 Fujii Bank Canada
 Hanil Bank Canada
 Hongkong Bank of Canada
 The Industrial Bank of Japan (Canada)
 International Commercial Bank of Cathay (Canada)
 Israel Discount Bank of Canada
 Korea Exchange Bank of Canada
 Laurentian Bank of Canada
 Manulife Bank of Canada
 Mellon Bank Canada
 Mitsubishi Bank of Canada
 J.P. Morgan Bank of Canada
 National Bank of Greece (Canada)
 National Bank of Canada
 National Westminster Bank of Canada
 NBD Bank, Canada
 Paribas Bank of Canada
 Republic National Bank of New York (Canada)
 Royal Bank of Canada
 Sakura Bank (Canada)
 Sanwa Bank Canada Soci t  G n rale (Canada)
 Sottomayor Bank Canada
 State Bank of India (Canada)
 The Sumitomo Bank of Canada
 Swiss Bank Corporation (Canada)
 Tokai Bank Canada
 The Toronto-Dominion Bank
 U.S. Bank (Canada)
 Union Bank of Switzerland (Canada)
 United Overseas Bank (Canada)

Representative Offices

Banca Unione di Credito
 Banco do Brasil S.A.
 Banco Comercial dos A ores
 Banco Espirito Santo e Comercial de Lisboa, S.A.
 Banco Nacional de Mexico
 Banco Totta & Acores
 Bank Hapoalim B.M.
 Bank J. Vontobel & Co. Ltd.
 Bank Leumi le-Israel Corporation
 Bank of Valletta Limited
 Banque Centrale Populaire du Maroc
 Bayerische Landesbank Girozentrale
 Boston Safe Deposit and Trust Company
 Commerzbank A.G.
 Confia, S.A.
 Cr dit Commercial de France (Suisse) S.A.
 The Cyprus Popular Bank Ltd.
 The Dai-Ichi Kangyo Bank, Ltd.
 The Export-Import Bank of Japan
 Grupo Financiera Serfin
 Hambros Bank Ltd.
 The Hokkaido Takushoku Bank, Ltd.
 Israel Discount Bank Ltd.
 Istituto Bancario San Paolo Di Torino S.p.A.
 The Korea Development Bank
 The Long-Term Credit Bank of Japan, Ltd.
 Mid-Med Bank Ltd.
 The Mitsubishi Bank, Ltd.
 Moscow Narodny Bank Limited
 National Mortgage Bank of Greece
 S.G. Warburg Securities
 The Sanwa Bank Limited
 Schroder Capital Management International
 Standard Chartered Bank
 The Sumitomo Trust & Banking Co., Ltd.
 Wesdeutsche Landesbank Girozentrale

* Commenced action towards voluntary liquidation and dissolution.

Trust Companies

AGF Trust Company
The Bank of Nova Scotia Trust Company
Bayshore Trust Company
The Canada Trust Company
CIBC Trust Corporation
Citizens Trust Company
Co-operative Trust Company of Canada
Commercial Trust Company Limited
The Equitable Trust Company
Evangeline Trust Company
FirstLine Trust Company
General Trust Corporation of Canada^{*}
Hongkong Bank Trust Company
Household Trust Company
The International Trust Company^{*}
The Merchant Private Trust Company
Montreal Trust Company
Montreal Trust Company of Canada
The Mutual Trust Company
Natcan Trust Company
The Northern Trust Company
Peace Hills Trust Company
Peoples Trust Company
Provincial Trust Company
The R-M Trust Company
The Royal Trust Company
Royal Trust Corporation of Canada
State Street Trust Company
Sun Life Trust Company
Swiss Bank Corporation Trust
TD Trust Company
The Trust Company of the Bank of Montreal
The Trust Company of London Life

Loan Companies

Bank of Montreal Mortgage Corporation
BLC Mortgage Corporation
Canada Trustco Mortgage Company
CIBC Mortgage Corporation
Granville Savings and Mortgage Corporation
Guardcor Loan Company^{*}
HongkongBank Mortgage Corporation
Laurential Bank of Canada Mortgage Corporation^{*}
Laurentian Bank Savings and Mortgage Corporation
League Savings and Mortgage Company
Mandate National Mortgage Corporation
MontroServices Corporation
MTC Mortgage Investment Corporation
Royal Bank Mortgage Corporation
Scotia Mortgage Corporation
Security Home Mortgage Investment Corporation
Seel Mortgage Investment Corporation
Settlers Savings & Mortgage Corporation^{*}
Sun Life Savings and Mortgage Corporation
TD Mortgage Corporation
TD Pacific Mortgage Corporation
Victoria and Grey Mortgage Corporation

^{*} Commenced action towards voluntary liquidation and dissolution.

Investment Companies

Associates Capital Corporation of Canada
Beneficial Canada Inc.
Canada Tire Acceptance Limited
Canadian Pacific Securities Limited
Capital One Canada Corporation
Central Capital Corporation
Chrysler Credit Canada Ltd.
Evangeline Financial Services Corporation
Ford Credit Canada Limited
GE Capital Canada Limited
General Motors Acceptance Corporation of Canada, Limited
Gentra Inc.
Household Finance Corporation of Canada
Hudson's Bay Company Acceptance Limited
Montreal Trustco Inc.
Nissan Canada Finance Inc.
RoyNat Inc.
Sears Acceptance Company Inc.
Trans Canada Credit Corporation
Transamerica Commercial Finance Corporation, Canada
Trizec Corporation Ltd.

Fraternal Benefit Societies

ACTRA Fraternal Benefit Society
Association Canado-Américaine
Canadian Professional Sales Association
Canadian Slovak Benefit Society
Canadian Slovak League
Croatian Catholic Union of U.S.A. and Canada
Croatian Fraternal Union of America
The First Catholic Slovak Ladies Association of the United States of America
The First Catholic Slovak Union of the United States of America and Canada
The Grand Orange Lodge of British America
The Hungarian Reformed Federation of America
The Independent Order of Foresters
Knights of Columbus
Lutheran Life Insurance Society of Canada
National Fraternal Society of the Deaf
The North West Commercial Travellers' Association of Canada
The Order of Italo-Canadians
The Order of United Commercial Travelers of America
Serb National Federation
Sons of Norway
Sons of Scotland Benevolent Association
Supreme Council of the Royal Arcanum
Ukrainian Fraternal Association (of America)
Ukrainian Fraternal Society of Canada
Ukrainian Mutual Benefit Association of Saint Nicholas of Canada
Ukrainian National Aid Association of America
Ukrainian National Association
Women's Life Insurance Society
Workers Benevolent Association of Canada
The Workmen's Circle

Insurance Companies

Life

Abeille Réassurances
Ætna Life Insurance Company
Ætna Life Insurance Company of Canada
Alexander Hamilton Life Insurance Company of America
Allianz Life Insurance Company of North America
Allstate Life Insurance Company
Allstate Life Insurance Company of Canada
American Bankers Life Assurance Company of Florida
American Income Life Insurance Company
American International Assurance Life Company Ltd.
American Life Insurance Company
AMEX Life Assurance Company
Balboa Life Insurance Company
Bankers Life and Casualty Company
Blue Cross Life Insurance Company of Canada
Business Men's Assurance Company of America
The Canada Life Assurance Company
Canada Life Casualty Insurance Company
Canadian Premier Life Insurance Company
Chrysler Life Insurance Company of Canada
CIBC Life Insurance Company Limited
CIGNA Life Insurance Company of Canada
College Retirement Equities Fund
Cologne Life Reinsurance Company
COLONIA Life Insurance Company
Combined Insurance Company of America
Commercial Union Life Assurance Company of Canada
CompCorp Life Insurance Company
Confederation Life Insurance Company
Connecticut General Life Insurance Company
Continental Assurance Company
Co-operators Life Insurance Company
Crown Life Insurance Company
CUMIS Life Insurance Company
CUNA Mutual Insurance Society
The Dominion Life Assurance Company
The Empire Life Insurance Company
The Equitable Life Assurance Society of the United States
The Equitable Life Insurance Company of Canada
Federated Life Insurance Company of Canada
Financial Life Assurance Company of Canada
Ford Life Insurance Company
Forethought Life Insurance Company
The Franklin Life Insurance Company
Frankona Rückversicherungs—Aktien—Gesellschaft
GAN VIE Compagnie Française d'Assurances sur la Vie
General American Life Insurance Company
The Great Lakes Reinsurance Company
The Great-West Life Assurance Company
Hartford Life Insurance Company
The Imperial Life Assurance Company of Canada
ITT Hartford Life Insurance Company of Canada
J.C. Penney Life Insurance Company
John Alden Life Insurance Company
John Hancock Mutual Life Insurance Company
Laurier Life Insurance Company
Liberty Life Assurance Company of Boston
Life Insurance Company of North America
Life Investors Insurance Company of America
Life Reassurance Corporation of America
The Lincoln National Life Insurance Company
London Life Insurance Company
The Manufacturers Life Insurance Company
The Maritime Life Assurance Company
Massachusetts Mutual Life Insurance Company
The Mercantile and General Life Reassurance Company of Canada
Metropolitan Life Insurance Company
Metropolitan Life Insurance Company of Canada

MIC Life Insurance Corporation
The Minnesota Mutual Life Insurance Company
Munich Reinsurance Company (Munchener Rückversicherungs-Gesellschaft)
The Mutual Life Assurance Company of Canada
The Mutual Life Insurance Company of New York
Mutual of Omaha Insurance Company
La Mutuelle du Mans Assurances Vie
National Fidelity Life Insurance Company
The National Life Assurance Company of Canada
New York Life Insurance Company
NN Life Insurance Company of Canada
North American Reassurance Company
The North West Life Assurance Company of Canada
Northwestern National Life Insurance Company
The Norwich Union Life Insurance Society
The Paul Revere Life Insurance Company
The Penn Mutual Life Insurance Company
Penncorp Life Insurance Company
Pennsylvania Life Insurance Company
Phoenix Home Life Mutual Insurance Company
Pierce National Life Insurance Company
Primerica Life Insurance Company of Canada
Principal Mutual Life Insurance Company
Provident Life and Accident Insurance Company
The Prudential Assurance Company Limited (of England)
Prudential of America Life Insurance Company (Canada)
The Prudential Insurance Company of America
RGA Life Reinsurance Company of Canada
Reliable Life Insurance Company
Royal Life Insurance Company of Canada Limited
Royal Maccabees Life Insurance Company
Royale Belge
SCOR Vie
Scotia Life Insurance Company
Seaboard Life Insurance Company
Société Anonyme Française de Réassurances
The Sovereign Life Insurance Company
The Standard Life Assurance Company
The Standard Life Assurance Company of Canada
State Farm Life Insurance Company
State Mutual Life Assurance Company of America
Sun Life Assurance Company of Canada
Sun Life of Canada Group Assurance Company
Swiss Reinsurance Company
Swiss Re Life Canada
TBD Life Insurance Company
Teachers Insurance and Annuity Association of America
Toronto Dominion Life Insurance Company
Toronto Mutual Life Insurance Company
Transamerica Life Insurance Company of Canada
The Travelers Insurance Company
Union Fidelity Life Insurance Company
Unione Italiana di Riassicurazione S.p.A.
United American Insurance Company
UNUM Life Insurance Company of America
The Wawanesa Life Insurance Company
Westbury Canadian Life Insurance Company
The Western Life Assurance Company
Winterthur Life Insurance Company
Zurich Life Insurance Company of Canada

Property and Casualty

Aegon Insurance Company (U.K.) Limited
 Aetna Casualty & Surety Company of Canada
 Affiliated F M Insurance Company
 Allendale Mutual Insurance Company
 Allianz Insurance Company of Canada
 Allstate Insurance Company
 Allstate Insurance Company of Canada
 Alpina Insurance Company Limited
 Alta Surety Company
 American Bankers Insurance Company of Florida
 American Credit Indemnity Company
 American Home Assurance Company
 American Insurance Company
 American National Fire Insurance Company
 American Re-Insurance Company
 The American Road Insurance Company
 Antigonish Farmers' Mutual Fire Insurance Company
 Arkwright Mutual Insurance Company
 Assicurazioni Generali S.P.A.
 Assitalia-Le Assicurazioni d'Italia S.P.A.
 Associates Insurance Company
 Avemco Insurance Company
 Aviation & General Insurance Company Limited
 AXA Pacific Insurance Company
 Axa Réassurance
 Balboa Insurance Company
 The Baloise Insurance Company Limited
 The Boiler Inspection and Insurance Company of Canada
 The British Aviation Insurance Company Limited
 Calvert Insurance Company Canadian Direct Insurance Incorporated
 Canadian General Insurance Company
 Canadian Group Underwriters Insurance Company
 Canadian Northern Shield Insurance Company
 The Canadian Surety Company
 Centennial Insurance Company
 Chicago Title Insurance Company
 Christiania General Insurance Corporation
 Chrysler Insurance Company
 Chubb Insurance Company of Canada
 CIBC General Insurance Company Limited
 CIGNA Insurance Company of Canada
 The Citadel General Assurance Company
 Clare Mutual Fire Insurance Company
 Co-operators General Insurance Company
 Cologne Reinsurance Company
 The Commerce Group Insurance Company
 Commercial Travelers Mutual Insurance Company
 Commercial Union Assurance Company of Canada
 Commercial Union Assurance Company plc
 Commonwealth Insurance Company
 Compagnie Transcontinentale de Réassurance
 Consolidated General Insurance Company Limited
 Constitution Insurance Company of Canada
 Continental Casualty Company
 The Continental Insurance Company
 Coseco Insurance Company
 CUMIS General Insurance Company
 CUMIS Insurance Society, Inc.
 The Dominion of Canada General Insurance Company
 Eagle Star Insurance Company Limited
 Ecclesiastical Insurance Office Public Limited Company
 Economical Mutual Insurance Company
 Elite Insurance Company
 Employers Insurance of Wausau a Mutual Company
 Employers Reinsurance Corporation
 The Equitable General Insurance Company
 Federal Insurance Company
 Federated Insurance Company of Canada
 Federation Insurance Company of Canada
 Fireman's Fund Insurance Company
 First American Title Insurance Company
 First National Insurance Company of America
 First North American Insurance Company
 Folksamerica National Reinsurance Company
 Folksamerica Reinsurance Company
 Foresters Indemnity Company
 Frankona Rückversicherungs—Aktien—Gesellschaft
 GAN Canada Insurance Company
 GE Capital Mortgage Insurance Company (Canada)
 The General Accident Assurance Company of Canada
 General Insurance Company of America
 General Reinsurance Corporation
 Gold Circle Insurance Company
 Gore Mutual Insurance Company
 Grain Insurance and Guarantee Company
 Granite Insurance Company
 Great American Insurance Company
 The Guarantee Company of North America
 Guardian Insurance Company of Canada
 The Halifax Insurance Company
 Hannover Rückversicherungs-Aktiengesellschaft
 The Hanover Insurance Company
 The Hartford Fire Insurance Company
 Hartford Insurance Company of Canada
 Helvetia Swiss Insurance Company, Limited
 Highlands Insurance Company
 The Home Insurance Company
 ICAROM Public Limited Company
 Jevco Insurance Company
 John Deere Insurance Company of Canada
 Kemper Reinsurance Company
 Kent General Insurance Corporation
 The Kings Mutual Insurance Company
 La Mutuelle du Mans Assurances I.A.R.D.
 Lawyers Title Insurance Corporation
 Legacy General Insurance Company
 Liberty Mutual Fire Insurance Company
 Liberty Mutual Insurance Company
 Lombard Insurance Company
 The London Assurance
 London Guarantee Insurance Company
 London and Midland General Insurance Company
 Lumbermen's Underwriting Alliance
 Lumbermens Mutual Casualty Company
 Marine Indemnity Insurance Company of America
 Maritime Insurance Company Limited
 Markel Insurance Company of Canada
 Maryland Casualty Company
 The Mercantile and General Reinsurance Company of Canada
 The Missisquoi Insurance Company
 Mitsui Marine and Fire Insurance Company, Limited
 The Mortgage Insurance Company of Canada
 Motors Insurance Corporation
 Munich Reinsurance Company of Canada
 NAC Reinsurance Corporation
 National Reinsurance Corporation
 Nationwide Mutual Insurance Company
 Nederlandse Reassurantie Groep N.V.
 New Hampshire Insurance Company
 The New India Assurance Company, Limited
 New Rotterdam Insurance Company
 Niagara Fire Insurance Company
 The Nippon Fire & Marine Insurance Company Limited
 The Non-Marine Underwriters, Members of Lloyd's London, England
 Nordisk Reinsurance Company A/S
 The North Waterloo Farmers Mutual Insurance Company
 Northern Indemnity, Inc.
 Norwich Union Fire Insurance Society Limited
 NRG Victory Reinsurance Limited
 NW Reinsurance Corporation Limited

Old Republic Insurance Company of Canada
 OTIP/RAEO Insurance Company Inc.
 Pearl Assurance Public Limited Company
 The Personal Insurance Company of Canada
 Perth Insurance Company
 Philadelphia Reinsurance Corporation
 The Phoenix Insurance Company
 Pictou County Farmers' Mutual Fire Insurance Company
 Pohjola Insurance Company Ltd. (Vakuutusosakeyhtio Pohjola)
 Pool Insurance Company
 The Portage la Prairie Mutual Insurance Company
 Primmum Insurance Company
 Principal Mutual Life Insurance Company
 Progressive Casualty Insurance Company
 Progressive Casualty Insurance Company of Canada
 Protection Mutual Insurance Company
 Protective Insurance Company
 Providence Washington Insurance Company
 Prudential of America General Insurance Company (Canada)
 Prudential Reinsurance Company (of America)
 Quebec Assurance Company
 The Reinsurance Corporation of New York
 Reliance Insurance Company
 Royal Insurance Company of Canada
 SAFECO Insurance Company of America
 Saskatchewan Mutual Insurance Company
 SCOR Canada Reinsurance Company
 SCOR Reinsurance Company
 Scotia General Insurance Company
 The Scottish Dominion Insurance Company Limited
 Seaboard Surety Company of Canada
 Security Insurance Company of Hartford
 Security National Insurance Company
 Sentry Insurance a Mutual Company
 Skandia Canada Reinsurance Company
 Skandia Insurance Company Ltd.
 Société de Réassurance des Assurances Mutuelles Agricoles

The Sovereign General Insurance Company
 St. Paul Fire and Marine Insurance Company
 State Farm Fire and Casualty Company
 State Farm Mutual Automobile Insurance Company
 Stewart Title Guaranty Company
 The Sumitomo Marine and Fire Insurance Company, Limited
 Swiss Reinsurance Company
 Swiss Reinsurance Company of Canada
 Swiss Union General Insurance Company Limited
 Terra Nova Insurance Company Limited
 TIG Insurance Company
 The Tokio Marine and Fire Insurance Company, Limited
 Toronto Dominion General Insurance Company
 Trade Indemnity P.L.C.
 Traders General Insurance Company
 Trafalgar Insurance Company of Canada
 Transatlantic Reinsurance Company
 Transit Insurance Company
 The Travelers Indemnity Company
 Trygg-Hansa Reinsurance Company of Canada
 Underwriters Insurance Company
 UNI Storebrand International Insurance A/S
 Unifund Assurance Company
 Unigard Security Insurance Company
 United States Fidelity and Guaranty Company
 The Unity Fire and General Insurance Company
 US International Reinsurance Company
 Utica Mutual Insurance Company
 Virginia Surety Company, Inc.
 Voyageur Insurance Company
 Waterloo Insurance Company
 The Wawanesa Mutual Insurance Company
 Wellington Insurance Company
 Western Assurance Company
 Western General Mutual Insurance Company
 Western Surety Company
 Winterthur Reinsurance Corporation of America
 The Yasuda Fire and Marine Insurance Company, Limited
 Zurich Indemnity Company of Canada
 Zurich Insurance Company (Zurich Versicherungs-Gesellschaft)