Regulatory Impact Analysis (RIA) Template

RIA Date: February 13, 2023 (updated March 24, 2023)

Ministry: Ministry of Finance

(Also reviewed by Ministry of Public & Business Service Delivery)

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Unit and Branch: Financial Institutions Policy Unit,

Financial Institutions Policy Branch

Name of Act: *Corporations Act*, R.S.O. 1990, c. C. 38

Name and Number of Regulation: n/a

Name of Policy or Form: n/a

What proposed instrument(s) is/are this RIA for:

☒ ***Legislation***
☐ ***Policy/Guide***
☐ ***Other*** *(please specify):*
☐ ***Regulation***
☐ ***Form***

One RIA could be prepared for a suite of changes in a number of instruments (i.e., Legislation, Regulation, Policies and Forms) as long as they all lead to one desired objective or outcome. For example, one RIA could be prepared for a regulatory amendment and related reporting requirements to be implemented in Policies/Forms. In these cases, please make sure that the RIA prepared for a suite of instruments includes ALL impacts of requirements under Policy/Forms[1].

Status of Legislative / Regulatory Proposal:
Preparing for LRC submission

Implementation timing:
Proposed legislative amendments would come into force on Royal Assent of the Spring 2023 Red Tape Reduction Bill.

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[1] If there are other impacts associated in policies and forms that are not outlined in the RIA prepared for a suite of instruments, please prepare another RIA with additional impacts.

Executive Summary

Issues & Objectives:

- Under the *Corporations Act*, mutual insurers are required to have Board complements of exactly 6, 9, 12, or 15 directors, with directors who serve terms of three years each.

- Proposed amendments are requested by stakeholders to make the requirements for the number of directors for boards of Ontario mutual insurers incorporated under the *Act* more flexible and modern.

Recommended Option:

- The Ministry of Finance proposes amending Subsections 165 (1) and (2) of Part V of the *Corporations Act* to remove requirements to constitute mutual insurer boards in multiples of three, and to rather implement a requirement that mutual insurers have a Board ranging from a minimum of 6 directors to a maximum of 15 directors and make other complementary amendments as necessary.

Benefits, Costs, and Other Impacts:

- The proposed amendments would support both cost savings and improved board governance for mutual insurers since mutual insurers could determine the appropriate number of board members based on their needs, within the specified range, rather than the rules currently in the *Corporations Act*.

- These proposed amendments align with the government's priority to reduce unnecessary administrative and regulatory burden for businesses.

- These proposed amendments would allow some mutual insurers to achieve cost savings. Preliminary estimates indicated annual savings for the sector could range between $50,000 - $100,000. The analysis herein has determined an estimated net annual savings of around $86,900 (in 2023 dollars), or $868,700 over a 10-year horizon (factoring in inflation and a standard discount rate).

- The proposed changes may also be helpful to rural Ontarians, Ontarians with lower incomes, and any small business that receives property and casualty insurance through an Ontario mutual insurer, as these proposed amendments would reduce administrative/compliance costs for mutual insurers, which could translate to lower premiums for policyholders.

Section 1: Issues & Objectives

Current legislative situation (“baseline”)

- Mutual insurance companies are a type of insurance company which are owned entirely by policyholders. The sole purpose of a mutual insurance company is to provide insurance coverage for its members and policyholders.
    - There are 37 mutual insurers operating in Ontario, with over 1,400 employees and more than 450,000 policyholders, primarily offering property and casualty insurance.
    - Mutual insurers date from the mid-1800s, starting with mutual groups formed by farmers to insure each other against risk (Many mutual insurers today continue to serve farming communities).
    - Mutual insurers in Ontario are represented by the Ontario Mutual Insurance Association (OMIA) and the Canadian Association of Mutual Insurance Companies (CAMIC), the sector’s national network.
- Ontario mutual insurers are governed by provincial legislation including the *Insurance Act* and the *Corporations Act*.
    - Mutual insurers in Ontario are licensed and regulated by the Financial Services Regulatory Authority of Ontario (FSRA).
    - The *Insurance Act* is administered by the Ministry of Finance (MOF).
    - The *Corporations Act* is administered by the Ministry of Public and Business Service Delivery (MPBSD), but MOF advises on amendments proposed to Part V as that part of the Act governs Ontario-incorporated insurers.
- Currently, according to Section 165 of the *Corporations Act*, mutual insurers’ boards of directors must contain complements of between six (6) and fifteen (15) directors and must be a multiple of three (i.e., 6, 9, 12, or 15 directors), based on historical convention.

- Under Sections 167 and 168 of the *Act*, directors of mutual insurers' must sit for three-year terms and one third of directors are required to retire annually, rotating a third of their boards each year.[2]

Why intervention is required

- Mutual insurers have expressed that requiring their boards to either increase or decrease in size by multiples of three creates unnecessary issues, for instance, when a director retires before the end of their three-year term, or when a mutual insurer seeks to add a new director with a particular kind of expertise (but does not require two additional directors to join as well).

- As such, stakeholders have requested that the *Corporations Act* be modernized to remove the 'multiples of three' requirement but keep the existing minimum and maximum number of directors, allowing mutual insurers to have boards ranging from 6 to 15 directors, with the number of directors within that range set at their discretion.

- This issue is solely due to the current requirements in the *Corporations Act*.

Proposed legislative amendments

- To provide more flexibility to Ontario mutual insurers, MOF is proposing legislative amendments to modernize board complement requirements for mutual insurers under Part V ("Insurance Corporations") of the *Corporations Act* for inclusion in the 2023 Spring Red Tape Reduction bill.

- Specifically, MOF is proposing to amend Subsections 165 (1) and (2) of Part V of the *Corporations Act*, to remove requirements to constitute mutual insurer boards in multiples of three, as well as complementary amendments to Sections 167 and 168 governing retirement and election of directors of the board that are necessary to implement this proposed change.

- These proposed amendments would allow for these boards to continue to function when their numbers change due to directors departing, without triggering unnecessary director recruitments unless additional directors are determined to be needed (by the mutual insurers' members). This change would provide mutual

[2] Under s. 167 and 168, newly incorporated mutual insurers have an exception to this rule, where terms of the first Board directors are determined by lot to be one, two, or three years at the first meeting of directors, and thereafter they begin to rotate one third of the Board's directors annually, with new directors serving three-year terms.

insurers with more flexibility to determine a board size/complement appropriate for their needs.

Rationale/Intended outcome

- This change is intended to help reduce unnecessary administrative and regulatory burden (a government priority), as mutual insurers would not be required to add or subtract more directors than they require (as they currently do, to meet the 'multiples of three' requirement).

- These proposed amendments aim to support the government's emphasis on burden reduction, modernization in the financial services sector, and increasing efficiency for Ontario's businesses.

- Without action to amend the legislation, this "multiples of three" board requirement would continue to be in place for mutual insurers. Stakeholders have requested these changes as the current requirements are onerous and creating unnecessary expense and administrative burden (i.e., requiring, in some cases, boards to be larger than what a mutual insurer needs).

- These changes would also bring requirements for mutual insurers' boards in line with requirements for other corporations.

    - When compared with the requirements for other types of corporations found in the *Business Corporations* Act ("OBCA"), the *Not-for-Profit Corporations Act* ("ONCA"), and the federal *Canada Business Corporations* Act ("CBCA"), which govern most other types of corporations, the current requirements under the *Corporations Act* are outdated, unnecessarily restrictive, and cumbersome.

Impact to regulated entities and stakeholders

- These changes would directly impact mutual insurers:

    - Earlier estimates indicated annual savings on director compensation (such as per diems, mileage, and other directors' reimbursements) for the sector as a whole could range between $50,000 - $100,000 (i.e., from mutual insurers not adding more directors than required to meet their governance needs). MOF's calculations estimate savings of around $86,900 (in 2023 dollars) annually.

- The proposed changes could also support improved board governance for mutual insurers, as mutual insurers could determine the appropriate number of board members based on their needs, within the specified range, rather than the sizes/complements currently required by the *Corporations Act*.

- The proposed changes may be helpful to rural Ontarians, Ontarians with lower incomes, and any small business that receives property and casualty insurance through an Ontario mutual insurer, as these proposed amendments would reduce administrative/compliance costs for these mutual insurers which could translate to lower premiums for policyholders.

- MPBSD, including Service Ontario, and FSRA have been engaged in these discussions and have no concerns with the proposed amendments, which do not pose an impact to their current operations.

Table 1: Comparison of current vs. proposed legislation

Current Legislative, Regulatory, Policy or Form Situation	**Proposed Amendment/ New Legislation/ Regulation/Policy/Form**	**Rationale/Intended Outcome**	**Impact to regulated entities (Y/N) and indicate impacted stakeholders**
The *Corporations Act* requires mutual insurers to have a Board complement of 6, 9, 12, or 15 directors	Amend the *Corporations Act* to require mutual insurers to have a Board with any number of directors between a range of 6 to 15 directors	Increase flexibility for mutual insurers to maintain appropriate Board complements; reduce compliance costs; reduce unnecessary administrative/ regulatory burden	**Yes** Mutual insurance companies in Ontario (and indirect impacts for their members/ policyholders)

Section 2: Options

As this issue is solely caused by the current provisions for mutual insurers' Board complement requirements in the *Corporations Act*, the only options available involve either amending the *Act*, or maintaining its current provisions ('status quo').

Recommended option: Amend the *Corporations Act*

- From reviewing the current legislation, MOF determined that the current requirement for mutual insurers' boards to have exactly 6, 9, 12, or 15 members is not flexible, adds unnecessary administrative and regulatory burden, and is not in line with comparable board requirements in similar legislation.

- When compared with the requirements for other types of corporations found in Ontario's *Business Corporations Act* ("OBCA"), Ontario's *Not-for-Profit Corporations Act, 2010* ("ONCA"), and the federal *Canada Business Corporations Act* ("CBCA," R.S.C. 1985 c. C. 44) and *Insurance Companies Act* ("ICA," S.C. 1991, c. 47), the current requirements for mutual insurers' Board size under the *Corporations Act* are outdated, unnecessarily restrictive, and cumbersome:

    - Subsection 115(2) of the OBCA and Subsection 102(2) of the CBCA only require that public corporations have not fewer than three (3) directors, and private corporations are only required to have a minimum of one (1) director.

    - Subsection 22(1) of the ONCA likewise only requires that a non-profit corporation has at least three (3) directors.

    - Similarly, federal legislation for insurance companies requires a minimum of seven (7) directors with no range or upper limit prescribed, under Subsection 167(1) of the *ICA.*

- The expected impact for Service Ontario and FSRA would be minimal, as the change would not affect the minimum or maximum number of board directors of mutual insurers (and hence would not affect, e.g., existing forms or administrative systems).

- As such, this option is recommended to address the issue.

<u>Alternative option(s)</u>

- *Status quo:*

    - Based on the rationale above, MOF has ruled out maintaining the status quo as an appropriate option, as it would continue an unreasonable, inflexible, and unnecessary governance requirement for mutual insurers.

- *Alternative amendments*:

    - While reviewing the current legislation, MOF also considered aligning the provisions in the *Corporations Act* with those in the OBCA or CBCA.

- While instituting a minimum of 3 board directors is a simpler requirement, stakeholders expressed during consultations that mutual insurers are generally comfortable with board complements of 6 to 15 members – rather, mutual insurers are seeking more flexibility in terms of the number of directors they can appoint within this range.

- Hence, MOF decided against the option for setting a minimum of 3 directors, as this would involve more substantive legislative amendments to the *Corporations Act*, as well as potential administrative changes at Service Ontario and FSRA if mutual insurers appoint less than the current minimum (6) number of directors, without necessarily benefitting mutual insurers.

Table 2: Comparison of options

Options	Description	Considerations
Recommended option: Amend the *Corporations Act*	Mutual insurers would be required to maintain a Board complement between 6-15 directors but have discretion to appoint any number of board directors within this range (as opposed to a multiple of three).	• Minimal changes to existing legislation and administration • Provides more flexibility for mutual insurers to appoint anywhere between 6-15 directors (in line with current practices for mutual insurers), at their discretion
Alternative option: No amendment/change	No change to existing legislative requirements for mutual insurers' boards (i.e., must maintain a board complement of 6, 9, 12, or 15 directors)	• Maintains status quo • Maintains current inflexible approach • Changes to board sizes must be done in groups of three, adding higher governance/compliance costs in some cases • No legislative changes required
Alternative option: Adopt Board requirements from other legislation	Adopt legislative requirements in the OBCA and CBCA, i.e., that mutual insurers have at least three directors on their boards.	• Less requirements than specifying a range of 6-15 directors • Stakeholders do not support a change to the minimum and maximum

Section 3: Assess Benefits and Costs

- It is difficult to estimate the full impact of this proposal in advance (i.e., as an *ex-ante* cost-benefit analysis), as different mutual insurers may wish to increase the size of their board, decrease the size of their board, or maintain their current number of board directors, if the “multiples of three” requirement is removed.

    - To accurately quantify the benefits and costs of the proposed amendments, it would require all Ontario mutual insurers to indicate whether they would plan to increase, decrease, or maintain their current number of board members over the applicable legislative review period. In consultations, stakeholders indicated this would not be feasible or appropriate for the sector.

- Earlier estimates indicated that annual savings on director costs (such as per diems, mileage, and other directors' reimbursements) for the sector as a whole could range between $50,000 - $100,000 (i.e., from mutual insurers not adding more directors than required to meet their governance needs). However, this was an initial estimate, subject to the uncertainty about mutual insurers' desired board sizes as outlined above.

- **Therefore, and considering that direct compliance costs are anticipated to be less than $1 million (and rather MOF projects negative compliance costs/net savings), this is a limited RIA**, with MOF's best efforts to estimate and quantify impacts of the proposed changes.

<u>Assumptions:</u>

- MOF used the following assumptions in preparing this analysis:

    - **A 10-year timeframe** was used for the analysis, based on the typical timeframe of 10 years to be consistent with other policy review periods.

    - **The mutual insurance sector in Ontario is currently comprised of 37 insurers**: 1 micro-sized company (with 0-4 employees), 35 small companies (with 5-99 employees), and 1 medium sized company (with over 100 but less than 500 employees).

    - Most mutual insurers' boards have either 6 or 9 members currently, and mutuals that have recently merged will often have 12 or even 15 members for a transition period (typically around 3-6 years) before they return to a smaller number. Based on this, and the number of mutual insurers above, **it is estimated that there is an average of around 9 board members per mutual insurer at present.** (This aligns with an estimate of around 300 board directors across all Ontario mutual insurers.)
        - The direct impacts of the proposed change would be negligible for almost all employees except for a small number of senior management, administrative and compliance staff (i.e., those involved in dealing with the board of directors directly and ensuring

compliance). As the day-to-day changes for these employees would also be small, it was omitted from the analysis as the anticipated impact on employees' regular tasks would be minimal.

- Stakeholders indicated that this number fluctuates, as there has been consolidation in the sector with a merger of 2 mutual insurers around every 3 years. Assuming this rate continues during the timeframe of the analysis, this would only reduce the number of impacted companies by one or two.
- Given the newly combined company/companies would immediately reduce their board complement(s) and assuming it would remain lower than the baseline for the prior companies, MOF believes the net reduction in board complements is already factored into estimates (i.e., a net reduction of ~3 board members by the end of a 10-year timeframe), without requiring consideration of the possible "surge and fall" of any combined mutual insurers' board complements over this timeframe.

- Stakeholders indicated that the average annual cost of a board director for a mutual insurer is around $7,000, based on per diem compensation for 9 full-day meetings, 9 half-day meetings, and 3 conference calls per year. (This estimate is for directors' duties only and does not include additional fees or honoraria that might accrue for positions like a board Chair or Vice-Chair, or minor reimbursement for mileage or incidental costs. As these costs vary by insurer and are generally small compared to directors' primary compensation, these were omitted from the analysis.)
    - To corroborate this estimate, it was assumed that full-day meetings require 7.5 hours, half-day meetings require 3.75 hours, and conference calls around 1.5 hours, each. This provides an estimate of 105.75 hours (or 14 days) per director per year, which at $500 per diem, MOF **estimates a total cost of $7,050 per director per year per mutual insurer**.
    - Overall, mutual insurers have reported on average about 3% of overall expense budgets relate to director compensation.

- Stakeholders' and MOF estimates indicate that **around 10 mutual insurers could elect to reduce their board member by at least one member over a 10-year timeframe**, were the proposed changes to be implemented.
    - In the analysis, to be conservative, MOF estimated that 10 companies and a reduction of one board member at each.

        - Such savings (compared to the status quo/baseline) would be realized each year and would not just be one-time savings.

    - Stakeholders also indicated they anticipate **there could be 15-20% in realized savings for mutual insurers who reduce their board complements, from reduced administrative, overhead, and incidental expenses** related to less board directors' involvement.
        - In the analysis, MOF takes this figure at face value as this appears a reasonable estimate. Further analysis would be required to validate this estimate, but such analysis would encounter the same issue around data collection that does not appear to be feasible presently, as outlined above.

<u>Methodology</u>

- MOF conducted this analysis using the Ontario Regulatory Cost Calculator (2021 version), with costs expressed in constant 2023 Canadian dollars. Costs were discounted over a 10-year time horizon, based on the typical legislative review period, using a real social discount rate of 2.5%, as recommended in most cases by MOF, as well as factoring in inflation using a historical rate of 1.9% (the default rate). Resulting totals below are presented in average annual present value terms, consistent with Ontario's *Regulatory Impact Analysis and Offsetting Practical Guide*.

<u>Results</u>

Direct compliance costs

- There are no anticipated material direct compliance costs associated with this proposal, beyond a nominal amount of time for current mutual insurer boards, lawyers and accounting staff that work with mutual insurers, to learn about the new requirements and plan accordingly.

    - MOF assumed these are one-time costs of up to one hour for board members, incurred in the first year, applicable across all mutual insurers. In addition, it is assumed that around two senior management figures (e.g., a CEO and CFO) at each mutual insurer will also be required to learn about these requirements, with the same duration.

    - Using average senior management costs per hour of $77 (based on RCC methodology standard estimates), this results in an estimated cost of $94 per mutual insurer, or around $3,400 in present value total costs over a

10-year timeframe (using a discount rate of 2.5% and factoring in inflation).

- However, MOF expects proposed changes to result in a net saving/reduced compliance cost for many mutual insurers, who would no longer be required to add or subtract from their board complements to achieve 6, 9, 12, or 15 directors. Hence, mutual insurers would no longer be required (by legislation) to add more directors than they require to meet their governance needs.

    - MOF expects this to result in some cases in net direct compliance savings, from reduced director compensation (such as per diems, mileage, and other directors' reimbursements) and reduced reporting costs (of new directors).

    - However, other mutual insurers may opt instead to incrementally add new board directors, in which case they may incur increased director compensation costs and increased reporting costs.

    - MOF assumed that there is an average reduction of 1 board member each for around 10 mutual insurers over the 10-year timeframe, to be conservative. Again, the actual change in board complements is not feasible to determine ahead of implementing these changes.

Other costs and risks

- MOF does not expect the proposed changes to have a material negative impact on the quality of governance for Ontario mutual insurers (and hence are not expected to lead to costs from mismanagement etc.).

- MOF anticipates the proposed changes would have a minimal impact in terms of new administrative costs for mutual insurers. As mutual insurers are already familiar with the existing requirements of the *Corporations Act*, they have minimal needs to learn about the new change, which only modifies the existing rules slightly, particularly as industry stakeholders have been involved throughout the process of developing the proposed amendments.

- The proposed changes may have nominal costs for FSRA and Service Ontario to change administrative forms and procedures to accommodate mutual insurers appointing any number between 6 and 15 board directors (as opposed to a set number of 6, 9, 12, or 15 directors) in their annual reporting/filings. As FSRA and Service Ontario indicated in consultations that the costs would be nominal, these were excluded from the analysis.

Benefits

- Qualitatively, MOF expects the proposed changes should lead to reduced regulatory burden for mutual insurers, who would no longer be required to report that they comply with the requirement to have 6, 9, 12, or 15 board directors and that they followed the corresponding procedures in the *Corporations Act*.

    - This reduced burden may also have a small positive impact on mutual insurers' competitiveness, but this is difficult to estimate in advance (for reasons outlined above).

- In quantifying the impacts of this change, MOF conservatively assumed that around 10 mutual insurers would reduce their board complements by 1 director each over a 10-year timeframe. After factoring in inflation and the discount rate, this leads to around a net savings of $74,400 per year, or a present value $743,700 over 10 years.

    - As stakeholders indicated that there may be a further cost savings of 15-20% from reduced administrative/overhead/incidental costs from less board directors being required, MOF conservatively assumed that an additional 15% savings among the approximately 10 mutual insurers expected to opt to reduce their board complements by around 1 member each. Using the annual director cost estimates above, this would be a net savings of around $1,218 annually for each of these companies, or around $12,800 annually or $128,500 over a 10-year timeframe (using a present value of 2.5% and factoring in inflation).

- As a result of reduced costs and regulatory burden, the proposed changes may also lead to small net savings for mutual insurers' policyholders. The amount of savings, however, will vary depending on how mutual insurers realize savings and the extent to which these are transferred to policyholders, which MOF cannot estimate well in advance.

Summary

Altogether, MOF anticipates that the proposed changes would lead to a net savings (expressed in present value, 2023 dollars) of approximately $86,900 annually, or $868,700 over a 10-year timeframe. The findings are summarized in Table 3 below:

Table 3: Overall costs (savings) of proposed amendments
$ Thousands, 2023 dollars

Cost (Savings) Category	Incremental cost/savings of proposed amendments (vs. status quo), $ thousands	
	Average annual present value cost	**10-year total present value cost**
Ongoing operating costs (savings)		
Reduction in directors' annual compensation	($74.4)	($743.7)
Administrative costs (savings)		
Education for mutual insurer Board directors and senior management	$0.3	$3.4
Anticipated reduction in general administrative, overhead, and incidental costs from reduced Board complements	($12.8)	($128.5)
Total net costs (savings)	**($86.9)**	**($868.7)**

Section 4: Seven Regulatory Modernization Principles

In proposing this change, MOF considered the government's regulatory modernization principles, as outlined below:

Table 4: Use of regulatory modernization principles

Regulatory Modernization Principles		
Principle	*Principle included?*	*Explanation of how the proposal was developed to include/consider each principle*
1. Adopting recognized national or international standards	☐	Proposed changes aim to align requirements for mutual insurer boards with those for other corporations governed under other Ontario and federal legislation but adapted to the existing practices of Ontario mutual insurers. As the current legislative requirements are Ontario-specific, however, other standards are not applicable, and this principle does not apply.
2. Less onerous compliance requirements should apply to small businesses than to larger businesses.	☒	Many Ontario-based mutual insurers are smaller than other property and casualty insurers, and current Board requirements are unduly onerous for these mutual insurers. The proposed changes would align Board requirements closer to those required for larger insurers (Ontario mutual insurers also serve many small businesses, and mutual insurers' cost savings may benefit these businesses).

Regulatory Modernization Principles		
Principle	*Principle included?*	*Explanation of how the proposal was developed to include/consider each principle*
3. Digital services that are accessible to stakeholders should be provided.	☐	The proposed change has minimal direct impact on the provision of digital services to stakeholders by government or by mutual insurers but would not impede delivery of accessible digital services for stakeholders.
4. Regulated entities that demonstrate excellent compliance should be recognized.	☐	This proposal permits more choice for mutual insurers, so there is not a requirement for compliance.
5. Unnecessary reporting should be reduced, and steps should be taken to avoid requiring stakeholders to provide the same information to government repeatedly.	☒	Proposed changes would reduce the administrative and reporting burden for mutual insurers of registering or retiring three directors at a time, as opposed to retiring or appointing any number of directors (between 6-15 in total) when required as determined by their business needs.
6. An instrument should focus on the user by communicating clearly, providing for reasonable response timelines and creating a single point of contact.	☒	The proposed changes would be communicated in advance to mutual insurers, ahead of coming into force. The proposed changes have been developed in consultation with industry stakeholders. Mutual insurers are overseen by board directors appointed by their members at annual general meetings. Removing the ‘multiples of three’ requirement for board complements is not expected to impact this oversight function.
7. An instrument should specify the desired result that regulated entities must meet, rather than the means by which the result must be achieved.	☒	The proposed change would directly remove the existing requirement which specifies that Ontario mutual insurers must have exactly 6, 9, 12, or 15 directors, and instead allows them to have any number of 6-15 directors. This change provides more flexibility for mutual insurers (while specifying a minimum and maximum range).

Section 5: Small Business Lens

Mutual insurers

- The majority of Ontario mutual insurers are smaller entities than other property and casualty insurance companies. The Ontario mutual insurance sector is comprised of 37 companies, with just over 1,400 employees in total (or an average 40 employees per insurer) and are mostly based in smaller rural communities. (The sector’s combined premiums in 2021 were $1.07 billion, a small fraction of the total property and casualty insurance market in Ontario).

- As such, reducing legislative/regulatory burden on mutual insurers would be proportionately beneficial to these smaller insurers (than larger, non-mutual insurers). Mutual insurers would not require an alternate small business compliance framework, as specific provisions for mutual insurers are already provided in the *Insurance Act* and *Corporations Act* and a new framework could instead introduce new compliance costs.

Small businesses served by mutual insurers

- In addition, mutual insurers are predominantly based in smaller, rural communities and often serve farmers and small businesses. The proposed changes may also help farmers and small businesses that receive property and casualty insurance through an Ontario mutual insurer, as these proposed amendments would reduce administrative/compliance costs for mutual insurers, which could translate to lower premiums for these policyholders.

- However, cost savings for small businesses are difficult to assess in advance, without knowledge of whether/how many Ontario mutual insurers plan to increase, decrease, or maintain their current number of board members over the applicable legislative review period (as outlined above).

Section 6: Consultation and Publishing the Analysis of Regulatory Impact

- The proposed legislative changes arose from requests by stakeholders, including OMIA, that the multiples of three requirement be removed but wishes to keep the existing minimum and maximum range of 6 to 15 directors.
    - MOF undertook consultations to refine this proposal, which has broad support among mutual insurers.

- MOF also consulted with Service Ontario and the Financial Services Regulatory Authority of Ontario (FSRA), who have expressed no concerns with the proposed changes and for whom this proposal poses minimal impact.

- MOF and MPBSD will post this analysis of regulatory impacts and the proposed change on the Regulatory Registry for any further comment from stakeholders, ahead of any legislative amendments.

Section 7: Offsetting

(*Note: Not applicable to legislation.*)

- MOF believes the proposed changes will generate net direct compliance cost savings and eliminate 2 regulatory compliance requirements. The best estimate of potential offsets is from the initial estimate of approximately $50,000 - $100,000 in annual savings for the mutual insurance sector, or of approximately $86,900 in annual savings based on the analysis above.

- However, it is not possible to fully calculate/estimate these savings *ex ante* without knowledge of whether/how many Ontario mutual insurers plan to increase, decrease, or maintain their current number of board members over the applicable legislative review period, which cannot currently be determined.

Table 5: Offsetting summary

Offsetting Summary			
1	If this proposal generates **NET direct compliance cost savings,** enter it here (as a positive number). If not, enter 0.		**Direct Compliance cost-savings – TO BE BANKED** $86,900 (estimated present value of annual net savings)
2	**If this proposal generates NET New or Incremental Direct Compliance Costs** (Average annual value) $	X $1.25 =	**Required Offset Value** N/A

If your ministry is requesting an exemption from offsetting under one of the two new offsetting exemption categories which require Cabinet approval, please check the appropriate exemption category below. (Please leave this section blank if it does not apply to your proposed instrument).

☐ Proposed instrument is related to urgent matters affecting public health, safety, or environmental protection. (The instrument is required to respond to a situation that was previously known, but now requires immediate attention).

☐ If offsetting would cause a ministry undue hardship. (In exceptional circumstances, where identifying and implementing the required offset would cause a ministry undue hardship).

In your final RIA, please include the outcome of the exemption request:
☐ Approved ☐ Denied ☐ Pending further work from the ministry

Section 8: Conclusion

- Ontario mutual insurers are requesting a modernized approach to board governance that allows them to right-size their boards of directors based on their business needs, within the specified range. The proposed amendments to the *Corporations Act* remove the current requirement for mutual insurers to maintain a board with strictly 6, 9, 12, or 15 directors, replacing this with a more flexible requirement to have between 6 to 15 directors.

- The proposed approach would provide more flexibility for mutual insurers, while involving minimal legislative changes or related administrative costs. On balance, MOF recommends this as the best option to address mutual insurers' board needs and achieve the specified objectives.

- The proposed changes may also be helpful to rural Ontarians (e.g., farmers), Ontarians with lower incomes, and any small business that receives property and casualty insurance through an Ontario mutual insurer, as these proposed amendments would reduce administrative costs for these mutual insurers which could translate to lower premiums for policyholders.

- MPBSD, including Service Ontario, and FSRA have been engaged in these discussions and have no concerns with the proposed amendments, which pose a minimal impact to their current operations. Stakeholders have been consulted and support the proposed changes.

- As it is unclear which mutual insurers would opt to increase the size of their board, decrease the size of their board, or maintain their current number of board members, it is difficult to quantitatively assess the impact of the proposed amendments.

- Therefore, MOF has opted to conduct a limited RIA, building on input from stakeholders. From this analysis, MOF projects small annual savings for the mutual insurance sector as a result of the proposed amendments. MOF has also qualitatively described areas where Ontario mutual insurers and their policyholders could expect to experience benefits as a result of implementing this proposal.