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○ ISSUE 2 | ○ VOLUME 6 | ○ SUMMER 2012



The OSFI Pillar

FROM THE OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS CANADA (OSFI)

OSFI Releases Final Guideline B-20 – Residential Mortgage Underwriting Practices and Procedures

OSFI has released its final version of the Guideline on Residential Mortgage Underwriting Principles, along with a summary of the consultation comments it received and an explanation of its responses. The Guideline outlines five main principles for prudent mortgage underwriting and/or acquisition:

- Have a comprehensive residential mortgage underwriting policy;
- Perform reasonable due diligence to assess the borrower’s identity, background and demonstrated willingness to service their debt obligations on a timely basis;
- Adequately assess the borrower’s capacity to service their debt obligations on a timely basis;
- Have sound collateral management and appraisal processes; and,
- Have effective credit and counterparty risk management, including, where appropriate, mortgage insurance.

The Guideline applies to all federally regulated financial institutions engaged in residential mortgage underwriting and/or the acquisition of residential mortgage loan assets in Canada. OSFI is giving institutions until fiscal year-end 2012 to comply with the Guideline, which does not apply retroactively to in-force residential mortgages.

For the news release, the Guideline, a summary of consultation comments and responses and other relevant documents, visit our website at www.osfi-bsif.gc.ca.

Senate Committee Appearance on OSFI’s New Role with CMHC

As announced by the government in the recent federal Budget, OSFI is now responsible for reviewing and monitoring the safety and soundness of CMHC’s commercial activities, largely its mortgage insurance and securitization programs.

This was the subject of an appearance at the Senate Standing Committee on Banking, Trade and Commerce by Patty Evanoff, Senior Director of OSFI’s Legislation and Approvals Division, and Penny Lee, Senior Director of our Property and Casualty Insurance Group.

Ms. Evanoff told committee members, “OSFI would review and assess the elements that we typically look at in federally regulated financial institutions. We currently supervise three private mortgage insurers and we look at areas such as risk management around use of financial models, adequacy of reporting to senior management and the board, documentation of underwriting decisions and adequacy of stress testing.”

For the complete remarks, visit the OSFI website at www.osfi-bsif.gc.ca.

New Appointments at OSFI

Jim Doherty has been appointed Senior Director of the Life Insurance Group (LIG), Supervision Sector, responsible for overseeing the supervision of life insurance and life reinsurance companies. In his previous role, Jim was Senior Director, Insurance Risk Management and Strategy in the Regulation Sector.



Jim Doherty
Senior Director
Life Insurance Group
Supervision Sector

Gaetano Geretto, formerly head of the LIG, has been appointed Senior Director, Insurance Risk Management and Strategy, Regulation Sector. In this role, Gaetano will work on orchestrating the development of policy matters in life and P&C insurance within OSFI, and provide senior management oversight of OSFI's Actuarial Division. He will also lead OSFI's IAIS work, including being OSFI's representative on the IAIS Executive Committee.

The appointments, which became effective July 2, 2012, were made to further integrate the work of the Actuarial Division with the LIG's supervisory risk assessments.

Jim Doherty joined OSFI in 2011. Before that he was a limited partner at Ernst & Young L.P. where he had been a member of the Insurance and Actuarial Advisory Services group and Life Insurance Practice Leader for Canada.

Prior to joining Ernst & Young in 1995, Jim worked in a variety of management and executive roles for Prudential (UK) in Canada and Tower Corporation in New Zealand.

Before joining OSFI in 2008, Gaetano Geretto was the founder and President of Pelecanus Strategic Advisory Services, a consulting firm providing strategy development and stakeholder and risk management services to senior leadership teams in the life insurance/reinsurance sectors in Canada, the U.S. and the European Union.

Before starting Pelecanus, he was President and CEO of the North American operations of Revios Reinsurance. He previously held a similar position in the life reinsurance operations of the Gerling Global Re group. Gaetano's experience also includes executive and senior management positions with Sun Life of Canada, Transamerica and Prudential (UK), and pension consulting experience with Towers Perrin.



Gaetano Geretto
Senior Director
Insurance Risk Management
& Strategy, Regulation Sector

Actuarial Reports Tabled Before Parliament

Pension Plan for the Public Service of Canada: On May 18, 2012, the Office of the Chief Actuary (OCA) submitted the Actuarial Report on the Pension Plan for the Public Service of Canada to the Honourable Tony Clement, President of the Treasury Board. The valuation determines the state of the Public Service Superannuation Account, the Pension Fund and the Retirement Compensation Arrangement Accounts as of March 31, 2011. As well, it helps the President of the Treasury Board make informed decisions regarding the financing of the government's pension benefit obligation.

The Actuarial Report on the **Pension Plan for the Royal Canadian Mounted Police**, the **Public Service Death Benefit Account** and the **Canada Student Loans Program** were also tabled in Parliament earlier this year.

All reports are available on our website at www.osfi-bsif.gc.ca.

OSFI Superintendent Speaks:



Julie Dickson
Superintendent

“Being Lulled into a False Sense of Security” —

This was the subject of the Superintendent’s speech to the **2012 Financial Services Invitational Forum** in Cambridge, Ontario, May 9th. Julie Dickson pointed to a long list of initiatives that suggest regulators and industry players are not being complacent.

At the same time, she noted, “we must constantly question where the list is complete, where more needs to be done, and whether the list is reasonable. Canadian banks have an enviable position. It is important we all continue to work hard to maintain that position, recognize the risks to stability in Canada, avoid complacency and not allow ourselves to be lulled into a false sense of security.”

In Madrid at the International Institute of Finance —

While at the International Institute of Finance meeting in Madrid, Spain, May 21st, the Superintendent spoke of views shared among financial institutions about quality supervision. Ms. Dickson concluded her talk on an area that institutions and supervisors tend to agree on: “This is the resources issues and the fact that high quality resources in sufficient numbers are needed to conduct intensive and effective supervision.... But it is important to remember that, even if we do solve the global resources issue, industry and supervisors will not always agree because supervisors are typically concerned about depositor safety and financial stability, while institutions think about those factors plus shareholder return, etc.”

“Good Corporate Governance” —

Speaking before the **Trust Companies Association of Canada Governance Day** in Toronto on May 24th, the Superintendent talked about good corporate governance practices, specifically for smaller institutions. OSFI plans to release its draft Corporate Governance Guideline for consultation this summer.

The text for all speeches is available on our website at www.osfi-bsif.gc.ca.

Mark Zelmer Addresses P&C Insurance Forum

While a guest speaker May 30th at this year’s Property and Casualty Insurance Industry Forum in Cambridge, Ontario, Assistant Superintendent Mark Zelmer highlighted the main differences he has observed between the P&C sector and other segments of the financial system. Also covered were some of the key priorities for the sector on the regulatory front this year. Those include issuing an updated Corporate Governance Guideline, enhancing the regulatory capital framework and continuing work on the Earthquake Guideline.

In addition, OSFI and its counterparts in other jurisdictions are promoting, as a key component of regulatory reform, a concept called Own Risk and Solvency Assessment (ORSA). OSFI’s expectations in this area will be set out in an ORSA Guideline later in the year.

For a copy of the speech, visit our website at www.osfi-bsif.gc.ca.



Mark Zelmer
Assistant
Superintendent

Results are in for the latest consultation surveys

With Private Pension Plans:

The results on the latest confidential survey undertaken with administrators and professionals of the private pension plans that OSFI regulates have been released. In late 2011, Harris Decima was commissioned to conduct the survey to assess OSFI's performance as a regulator and supervisor, and to seek suggestions for improvement.

Overall, impressions of OSFI were positive, with a strong majority of survey participants being satisfied with OSFI as the primary regulator and supervisor of their pension plans. Survey results indicated that some improvements could be made in communication, particularly in the area of raising awareness of the *InfoPensions* publication, which is posted on the OSFI website. The findings will enable the Private Pension Plans Division to make improvements.

With the Property and Casualty Insurance Sector:

Similar results were recorded in the latest survey held with P&C insurance institutions. Respondents indicated that overall impressions of OSFI are positive in most areas, despite challenging times for the financial services industry. The survey was conducted in late 2011 by The Strategic Counsel.

The survey also identified areas for improvement, including a perceived lack of explanation from OSFI about input provided by the industry related to reinsurance, and the effectiveness of OSFI's communication on international activities.

The survey reports are posted on our website at www.osfi-bsif.gc.ca.

What's New Online (www.osfi-bsif.gc.ca)

- Position Paper — Minimum Capital Test (MCT) of Capital, regulatory capital available for Property & Casualty insurers, with written comments due by September 4, 2012.
- Draft 2013 MCT Guideline for industry consultation with comments on the proposed changes requested by August 10, 2012.
- Remarks by Chief Actuary Jean-Claude Ménard, Office of the Chief Actuary, to the Opening Ceremony of the 17th International Conference of Social Security Actuaries and Statisticians, ISSA, Berlin, Germany, 30 May 2012.
- Pension Assessment Remittance Form to assist plan administrators in the calculation and remittance of their annual pension assessment.
- Operational Risk Self-Assessment Program Template for Financial Institutions.
- *InfoPensions* – Issue 7 – May 2012.

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The OSFI Pillar

The *Pillar* is published by the Communications and Consultations Division of the Office of the Superintendent of Financial Institutions Canada.

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255 Albert Street
Ottawa, Ontario K1A 0H2