



November 3, 2014
File No.: 78000-03
Ref. No.: 0756

To: All BC Incorporated Insurers

Re: Adoption of OSFI Guideline B3: Sound Reinsurance Practices and Procedures

The purpose of this letter is to inform BC incorporated insurers that the Financial Institutions Commission (FICOM) has adopted the federal [*Guideline B3: Sound Reinsurance Practices and Procedures*](#) issued by the Office of the Superintendent of Financial Institutions (OSFI) (with additional clarification provided in the enclosed appendix). In adopting this guideline, FICOM has taken into consideration feedback provided by stakeholders and the recent amendments made to the legislation regarding reinsurance.

Guideline B3 sets out expectations for prudent reinsurance practices. Following are the key requirements:

- Insurers are expected to have a sound and comprehensive reinsurance risk management policy, subject to the oversight of the insurers' Board of Directors and implementation by senior management.
- Appropriate due diligence is expected to be conducted on any reinsurance counterparty prior to entering into a reinsurance arrangement, and on an on-going basis to monitor risk associated with that reinsurer.
- Reinsurance contracts are expected to be comprehensive in setting out their terms and conditions; executed within a short timeframe once agreement to reinsure has been reached; and enforceable including having an "insolvency clause" that ensure that any monies due from the counterparty are available under Canadian law.

While not specifically part of B3, FICOM also expect that any reinsurance placed with unregistered reinsurers be collateralized with an acceptable form of security. FICOM considers Reinsurance Security Agreements (RSA) to provide a more enforceable level of protection, and BC insurers are expected to give preference to the use of RSAs to collateralize unregistered reinsurance.

For further information pertaining to RSA and security arrangements for unregistered reinsurance, please refer to the OSFI website [Questions and Answers – Guidance for Reinsurance Security Arrangements](#).

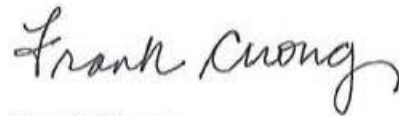
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- Superintendent of Financial Institutions
 - Superintendent of Pensions
 - Superintendent of Real Estate
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Although OSFI has removed its limits on reinsurance coverage in *Guideline B3*, the reinsurance limits specified in the insurance company reinsurance limitation regulation to the *Financial Institutions Act* still apply to BC insurers. However, these limits can be varied with the approval of the Commission pursuant to section 5 of the regulation. Enclosed is an Information Bulletin on the procedure for seeking Commission approval. Please note that exceeding the regulatory limits without approval may result in administrative penalties in accordance with the *Administrative Penalties Regulation*.

If you have any questions regarding FICOM's decision to adopt *Guideline B3*, please contact Harry James, Director, Policy Initiatives, at harry.james@ficombc.ca. If you have any questions regarding implementation, please contact your FICOM Relationship Manager.

Yours truly,



Frank Chong
Deputy Superintendent, Regulation

Enclosures (2)

HJ/ac

Appendix

This appendix clarifies FICOM’s requirements towards references made in *OSFI Guideline B3*

OSFI References	FICOM’s Requirements
<ul style="list-style-type: none"> • <i>OSFI Supervisory Framework</i> • <i>Guide to Intervention for Federally Regulated Life Insurance Companies</i> • <i>Supervisory Guide Applicable to Federally Regulated Insurance Companies</i> 	<p>References to OSFI’s Supervisory Framework and related documents should be replaced with FICOM’s Supervisory Framework.</p> <p>FICOM has issued its own guides to intervention.</p>
<ul style="list-style-type: none"> • <i>OSFI Guideline B-10: Outsourcing of Business Functions and Processes</i> 	<p>FICOM has adopted OSFI Guideline B-10.</p>
<ul style="list-style-type: none"> • <i>Guideline A: Minimum Continuing Capital and Surplus Requirements (MCCSR)</i> • <i>Guideline A: Minimum Capital Test (MCT)</i> 	<p>Insurers are required pursuant to sections 8 and 8.1 of the Capital Requirements Regulation to adhere to all guidance OSFI publishes regarding the MCT and MCCSR.</p>
<ul style="list-style-type: none"> • <i>Corporate Governance Guideline</i> 	<p>FICOM has adopted OSFI’s Corporate Governance Guideline.</p>
<ul style="list-style-type: none"> • <i>Guideline E-17: Background Checks on Directors and Senior Management of Federally Regulated Entities (FRE)</i> 	<p>FICOM is currently reviewing this guideline with the intention of adopting.</p>