
BULLETIN NUMBER:	INS-06-005
TITLE:	INCORPORATING AN INSURANCE COMPANY AND OBTAINING A BUSINESS AUTHORIZATION IN BRITISH COLUMBIA
LEGISLATION:	<i>THE FINANCIAL INSTITUTIONS ACT AND REGULATIONS AND THE COMPANY ACT AND REGULATIONS</i>
DATE:	JANUARY 2006

PURPOSE

This bulletin outlines the procedures involved in becoming authorized as a general and/or life insurance company incorporated in British Columbia.

This bulletin does not address the authorization of extraprovincial companies, societies, reciprocal exchanges, or captive insurers.

GOVERNING LEGISLATION

In order for an entity to conduct insurance business in British Columbia, as a company incorporated in this province, it must apply for authorization from the Financial Institutions Commission ("FICOM").

The *Financial Institutions Act* ("FIA") outlines the two-step process for the authorization of a new insurance company:

1. The entity must apply for and receive consent to incorporate in the province; and
2. After incorporation, the entity must apply for and receive a Certificate of Business Authorization.

The insurance company must apply for its authorization within one year of the date of its incorporation. During the interim period, the company is only permitted to carry on those activities set out in its application for incorporation. Prior to receiving its Certificate of Business Authorization, the insurance company is not permitted to carry on insurance business (i.e., sell insurance products) in British Columbia.

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Copies of the FIA and the Regulations passed pursuant to the FIA, along with any additional statutes and regulations, can be obtained from:

Crown Publications
521 Fort Street
Victoria, British Columbia
V8W 1E7

Telephone: 250-386-4636
Facsimile: 250-386-0221

Website: www.crownpub.bc.ca
Or www.qp.gov.bc.ca/statreg/

TIMING

While there are no specific timelines concerning how long it will take to assess an application for an incorporated company, the average assessment takes approximately three months. FICOM staff will undertake to complete assessments as quickly as possible; however, the length of time spent reviewing an application will depend on the specifics of each application. An applicant can expedite the receipt of regulatory approval by filing a complete application and providing all required supporting information at the outset of the application process.

Applicants should be aware that, in addition to the review conducted by staff, the application must be presented to and approved by the Commissioners and this can impact the length of time required for an applicant to receive a decision.

FICOM will communicate regularly with the applicant throughout the application process.

STEP 1. INCORPORATION

Statutory Criteria

One or more persons who propose to form a corporation for the purpose of carrying on insurance business in the province must comply with the requirements of the FIA. An Application for Incorporation form must be completed and filed with the Superintendent of Financial Institutions ("Superintendent").

Information Required

The following items must accompany the application form:

1. The proposed memorandum of incorporation and proposed articles;
2. A notice of the company's registered office and records office;
3. Names, addresses and number of voting shares of each subscriber in the company;

4. Current organization chart (with percentage owned), identifying the company's ultimate parent (owner), if any, and all entities in the corporate group;
5. Completed Personal Information Returns for each subscriber who would own or control 10% or more of the voting shares in the company;
6. Evidence that subscribers will be capable of providing continuing financial support to the company (if a subscriber is a corporation, a copy of its financial statements, for the last three years);
7. Background information (i.e., curriculum vitae) on each of the proposed directors and senior officers;
8. Completed Personal Information Returns for each of the proposed directors and senior officers;
9. A business plan, including:
 - a. The reasons why the subscribers wants to establish an insurance company;
 - b. An analysis of target markets and opportunities that the company will pursue and the plans to address them;
 - c. An analysis of competitors, showing threats and opportunities and the plans to address them;
 - d. The reasons why the subscribers believe that the company will be successful and the overall strategy for achieving this success, including key assumptions;
 - e. An overview of each line of business to be conducted by the company, including a description of the type of business it wishes to insurer and the classes of insurance it will require;
 - f. *Pro forma* financial statements, including balance sheet, income statement, and cash flow projections, for the first five years of operations. *Pro forma* income statement should include premium volumes on a gross and net basis, net retention per class of insurance and a detailed description of all reinsurance arrangements;
 - g. A discussion of key assumptions used, including those underlying claims, valuation, pricing, underwriting, expenses and persistency of policies. In addition, provide detailed capital calculations and calculation of financial ratios relevant to the proposed business. Premiums volumes and sales targets should be supported by market studies in Canada and projected results should be compared to the peer group or industry as a whole. Major asset, liability, income and expense categories should be identified, including start-up costs and any amount and description of off-balance sheet activities;

- h. Details of actuarial assumptions used in the *pro forma* financial statements; and
 - i. Projected staff complement and organization chart showing reporting lines for senior positions and key responsibilities in the company and a description of the function the individuals will perform.
10. The non-refundable incorporation fee of \$5,000 (cheques must be made payable to the Minister of Finance).

FICOM's Review Process

In assessing whether an applicant should be permitted to incorporate in British Columbia, FICOM staff review the application with the consideration in mind that the applicant must have a reasonable chance of obtaining a business authorization following the incorporation and, once authorized, that they would operate the insurance company in a prudent and appropriate manner.

After the application has been reviewed by staff, it is presented to the Superintendent and Commissioners for consideration. At this point, the applicant may be required to appear at a Commissioners' Meeting in order to discuss any issues raised by the Commissioners.

Once the Superintendent and Commissioners are satisfied that all requirements for incorporation have been met, the Registrar of Companies will incorporate the insurance company in the province.

Assessment Criteria

Upon receipt of the required information, FICOM staff will review the application to ensure that the following requirements have been met:

1. The proposed memorandum and articles are in compliance with the FIA and its Regulations;
2. The preliminary activities are appropriate and in compliance with the FIA and its Regulations;
3. The proposed company intends to and will be able to obtain a business authorization within a reasonable time after incorporation; and
4. Each subscriber is a person who ought to be in the position to control or influence an insurance company.

Once FICOM consents to the incorporation of the insurance company, the company is ready to proceed with the second step of the authorization process.

STEP 2. ISSUING OF BUSINESS AUTHORIZATION**Statutory Criteria**

An insurance company is not permitted to carry on insurance business in British Columbia unless it has received a business authorization from FICOM.

An insurance company must file an Application for Business Authorization form with FICOM within one year of the date of incorporation of the company.

Information Required

The Application for Business Authorization form sets out certain materials that the company must provide to FICOM as part of its application for business authorization. There are additional materials, not listed on that form, that are required from the company at the same time. Listed below are the documents required from a company when it is applying for a Certificate of Business Authorization:

1. A completed Application for Business Authorization form;
2. An updated list of directors and senior officers (if there have been any changes since the application for incorporation, the new directors and senior officers must file Personal Information Returns);
3. A description of the company's corporate governance policies and practices;
4. A list of members of the following committees:
 - a. Audit Committee;
 - b. Investment and Lending Committee; and
 - c. Conduct Review Committee.
5. A copy of the written policies and procedures of each committee;
6. A copy of the minutes of all Board of Directors' meetings, including the meetings of its committees, since the incorporation date;
7. Evidence of membership in an approved insurance compensation plan;
8. Audited financial statements, including a copy of the company's audited opening balance sheet;
9. Interim financial statements ending the month preceding the application;
10. A copy of all insurance policies and endorsements;

11. A copy of all reinsurance agreements and an explanation of the net retention level of various risks;
12. A copy of any management agreements;
13. A copy of any insurance agent or broker agreements;
14. An explanation of any material changes made to the business plan;
15. An actuarial opinion on the reasonableness of the business plan, including scenario testing showing the results in key assumptions on the base case business plan, the Minimum Capital Test or Minimum Continuing Capital Surplus Requirements test for each year and contingency plans to address the worst case and other adverse scenario;
16. A description of the company's computer systems, including the technology platforms used, the type of hardware, the type of application software and a risk assessment of information technology operations;
17. A description of the company's business continuity plan;
18. A description of any material outsourcing arrangements between the company and its affiliates or third parties;
19. Any other information requested by the Superintendent; and
20. A non-refundable application fee of \$2,500.

FICOM's Review Process

FICOM staff will review the company's application in order to ensure that the company meets the requirements of the FIA.

If it appears that the company has met the necessary requirements, an on-site review may be conducted to evaluate whether the company has the necessary systems, management structure, control processes, and compliance management systems in place to carry on business with the public.

If FICOM is satisfied that the company has met all the necessary requirements and is ready to offer insurance to the public, FICOM may issue the company a Certificate of Business Authorization.

Assessment Criteria

The application submitted by an insurance company incorporated in British Columbia will be examined to ensure that the company meets the following requirements:

1. Capital Adequacy

FICOM must be satisfied that the financial institution's capital base is adequate for the size, business mix and complexity of its business and is at least equal to the minimum requirements set by the regulations. The capital must, at all times, meet the Office of the Superintendent of Financial Institution's Minimum Continuing Capital and Surplus Requirement for Life Insurance Companies or the Minimum Capital Test for Canadian Property and Casualty Companies. As well, the company should identify an optimum (target) level of capital to support the risks undertaken by the company.

2. Directors and Senior Officers

FICOM must be satisfied that directors and senior officers have both the governance and managerial capacity to properly carry on insurance business. An insurance company must have at least 5 directors, of which at least 1/3 must be unaffiliated directors. The majority of the directors must be persons who ordinarily reside in Canada, and one director must ordinarily reside in British Columbia. Each director must also meet the qualification provisions of section 114 of the *Company Act*.

3. Membership in an Approved Insurance Compensation Plan, as Appropriate:

- a. A general insurer must provide evidence that it is a member of the Property and Casualty Insurance Compensation Corporation ("PACICC"). An application for membership may be obtained from:

Paul Kovacs	Telephone: 416 364-8677
President and Chief Executive Officer	1 888 564-9199
PACICC	Facsimile: 416 364-5889
210 - 20 Richmond Street East	
Toronto, Ontario	Website: www.pacicc.com
M5C 2R9	

- b. A life insurance company must provide evidence that it is a member of the Canadian Life and Health Insurance Compensation Corporation known as Assuris. As well, a general insurance company that sells accident and/or sickness insurance must also provide evidence of Assuris membership. An application for membership may be obtained from:

Gordon M. Dunning	Telephone: 416 777-2344
President and Chief Executive Officer	1 800 268-8099
Assuris	
1600 - One Queen Street East	Website: www.assuris.ca
Toronto, Ontario	
M5C 2X9	

4. Financial Statements

An insurance company must submit its audited financial statements with its Application for Business Authorization. Interim financial statements ending the month preceding the application (including a balance sheet and income statement) must also be submitted with the application. The amount and composition of the capital base must meet the requirements of the FIA and Regulations.

5. Committees

The names of members of the following committees must be provided:

- a. Audit Committee;
- b. Investment and Loan Committee; and
- c. Conduct Review Committee.

Requirements pertaining to the composition and functions of these committees are outlined in the FIA and Regulations.

6. Plan of Operations

An insurance company must submit its proposed plan of operations to FICOM and this plan must be feasible. This plan should describe the manner in which the business will be carried on in the province and must provide an updated 5 year *pro forma* balance sheet, income statement, and cash flow projections, with the assumptions upon which the projections are based. The plan must also include an actuarial opinion on the reasonability of the projections and the Minimum Capital Test for a general insurance company or Minimum Continuing Capital Surplus Requirements test for a life insurance company for each year of the plan.

7. Business Authorization Application Fee

The non-refundable fee for an Application for Business Authorization is \$2,500 and must be included with the application. Cheques should be made payable to the Minister of Finance.

Contacts

For more information, please contact:

<p>Deputy Superintendent, Insurance And Pensions Financial Institutions Commission 1200 – 13450 102nd Avenue Surrey, British Columbia V3T 5X3</p>	<p>Telephone: (604) 953-5300 Fax: (604) 953-5301 Web site: www.fic.gov.bc.ca E-mail: ficom@ficombc.ca</p>
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Staff of the Financial Institutions Commission periodically issue interpretation bulletins to provide technical interpretations and positions regarding certain provisions contained in the *Financial Institutions Act* and Regulations. While the comments in a particular part of an interpretation bulletin may relate to provisions of the law in force at the time they were made, these comments are not a substitute for the law. The reader should consider the comments in light of the relevant provisions of the law in force at the time, taking into account the effect of any relevant amendments to those provisions or relevant court decisions occurring after the date on which the comments were made. Subject to the above, an interpretation or position contained in an interpretation bulletin generally applies as of the date on which it was published, unless otherwise specified.