



February 12, 2014  
File No.: 78000-03  
Ref. No.: 0754

**To: BC Incorporated Property and Casualty (P&C) and Life Insurers**

**Re: Adoption of Guideline A-4: Regulatory and Internal Target Capital Ratios and Guideline E-19: Own Risk and Solvency Assessment**

This past June, the Financial Institutions Commission (FICOM) consulted with all BC incorporated P&C and Life insurers on our intention to adopt two guidances being implemented by the federal Office of the Superintendent of Financial Institutions (OSFI), *Guideline A-4: Regulatory and Internal Target Capital Ratios* and *Guideline E-19: Own Risk and Solvency Assessment* (ORSA). OSFI has now issued its final versions of these two guidelines.

This is to advise that FICOM has adopted these two guidelines without modification for provincial incorporated insurers, based on feedback received from our own consultation. Attached are copies of the guidelines. The implementation date for these guidelines took effect as of January 1, 2014.

While the implementation date for these two guidelines was January 1, 2014, FICOM recognizes that insurers will need time to meet all of the expectations outlined in the guidelines and to implement processes that will allow them to adhere to the guidelines. However, FICOM does expect to receive from insurers, by no later than December 31, 2014, a completed ORSA report that has been reviewed by the insurers board and includes board input.

In addition to containing the key elements discussed in the ORSA guidance, the initial ORSA report needs to:

- contain sufficient information about the risk assessment process undertaken by the insurer and the underlying principles, methodologies, key assumptions and information the insurer has used to evaluate and quantify its risks;
- contain sufficient information about the principles, methodologies, key assumptions and information the insurer has used to evaluate and quantify its risk mitigants;

- outline the timelines the insurer has established for operationalizing the processes and procedures it considers necessary to complete an ORSA on an ongoing basis;
- outline the timelines the insurer has established for operationalizing the risk mitigants and oversight and control functions;
- set out the internal capital target the insurer has established as a result of the initial ORSA, (and for life insurers the internal core capital target), as well as the level or range of capitalization above the internal capital target the insurer intends to operate at under normal operating conditions; and
- set out the insurer's intentions regarding future stress testing, the involvement of an objective reviewer and the timing of the expected objective review.

The above information will allow FICOM supervisory staff to engage in discussions with the insurer regarding the insurer's approach to ORSA and expectations regarding the insurer's ability to fully comply with the ORSA and Internal Target Capital guidances. Those discussions will take into account the insurer's risk profile and the nature, scale and complexity of the insurer. Of note, some insurers may be expected to complete an ORSA on a group wide basis. FICOM relationship managers will advise those insurers directly.

While FICOM does recognize that it will take time for insurers to fully comply with the ORSA expectations, insurers are still required to hold sufficient capital and are expected to continue to manage capital in accordance with existing internal capital target thresholds until those targets are reset as a result of the ORSA process.

If you have any questions, please direct them to your FICOM relationship manager.

Yours truly,



Carolyn Rogers  
CEO and Superintendent of Financial  
Institutions

Enclosures

pc: Frank Chong  
Executive Director,  
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HJ/ac