

June 26, 2013  
File No.: 100-20  
Ref. No.: 0061

**To: BC Incorporated Insurers**

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

The purpose of this letter is to inform BC incorporated insurers of the Financial Institution Commission's (FICOM) intent to adopt *Guideline A-4: Regulatory and Internal Target Capital Ratios* and *Guideline E-19: Own Risk and Solvency Assessment*, which are issued by the federal Office of the Superintendent of Financial Institutions (OSFI).

These guidelines will impact capital management and risk management practices for all British Columbia incorporated insurers (BC insurers) and will be effective on January 1, 2014. FICOM is requesting feedback from all BC insurers regarding the proposed guidelines; this feedback will inform the degree to which FICOM will apply them.

*Guideline A-4* sets out expectations with regards to capital and solvency assessment requirements. Under *Guideline A-4*, BC insurers will be required to establish internal target capital ratios above the supervisory minimum. This buffer allows insurers sufficient time to take corrective actions before supervisory intervention becomes necessary.

To determine internal target capital ratios, BC insurers must establish their Own Risk and Solvency Assessment (ORSA) process, as outlined in *Guideline E-19*. ORSA is meant to capture and measure any risk exposures specific to each insurer that are not addressed adequately by capital requirements. BC insurers will be expected to complete their ORSA in accordance with *Guideline E-19* to establish their internal target capital ratios.

Copies of the following are enclosed for convenience:

- FICOM *Guideline Impact Analysis Statement for ORSA and ICT*
- OSFI *Draft Guideline A-4: Regulatory and Internal Target Capital*
- OSFI *Draft Guideline E-19: Own Risk and Solvency Assessment*
- OSFI *Draft ORSA Key Metrics Report*

FICOM requires that an ORSA be completed at least annually, and that the capital management policy also be reviewed at least annually as required under *Guideline A-4*.

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- Superintendent of Financial Institutions
  - Superintendent of Pensions
  - Superintendent of Real Estate
  - Registrar of Mortgage Brokers

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*Guideline A-4* and *Guideline E-19* also reference additional guidelines that represent industry best practices, and FICOM encourages insurers to adhere to these best practices. See Appendix A for more detailed information.

FICOM requests that BC insurers complete an internal assessment to determine any gaps in either *Guideline A-4* and/or *Guideline E-19*. Once your internal assessment is complete, please submit your feedback by July 31, 2013. Please note that overall observations will be shared with OSFI.

If you have any questions, or for more information, please contact Frank Chong, Executive Director, Supervisory Support, Policy at [Frank.Chong@ficombc.ca](mailto:Frank.Chong@ficombc.ca).

Yours truly,

A handwritten signature in blue ink that reads "Douglas B. McLean". The signature is fluid and cursive, with the first name "Douglas" being the most prominent.

Douglas B. McLean  
Deputy Superintendent of  
Financial Institutions

Enclosures (4)

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## Appendix A

This appendix clarifies FICOM's requirements towards references made in *Draft Guideline A-4* and *Draft Guideline E-19*.

| OSFI References   | FICOM's Requirements  |
|---|---|
| <ul style="list-style-type: none"> <li>• <i>OSFI Supervisory Framework</i></li> <li>• <i>Guide to Intervention for Federally Regulated Life Insurance Companies</i></li> <li>• <i>Supervisory Guide Applicable to Federally Regulated Insurance Companies</i></li> </ul>                  | <p>References to OSFI's Supervisory Framework and related documents should be replaced with FICOM's <a href="#">Supervisory Framework</a></p>   |
| <ul style="list-style-type: none"> <li>• <i>Dynamic Capital Adequacy Testing (DCAT)</i></li> <li>• <i>Guideline E-18: Stress Testing</i></li> </ul>   | <p>FICOM adopted <i>Guideline E-18: Stress Testing</i> (see <a href="#">INS-11-004</a>). FICOM also requires DCAT to be performed at least every 3 years.</p> <p>BC insurers are encouraged to perform additional stress testing if necessary and appropriate to the circumstances.</p> |
| <ul style="list-style-type: none"> <li>• <i>Guideline A: Minimum Continuing Capital and Surplus Requirements (MCCSR)</i></li> <li>• <i>Guideline A: Minimum Capital Test (MCT)</i></li> </ul>   | <p>FICOM adopted both MCT and MCCSR (see <a href="#">INS-12-005</a> and <a href="#">INS-12-006</a>). As such, FICOM affirms that BC life insurers must establish ratios for their tier 1 internal target and for their overall internal target.</p>                                     |
| <ul style="list-style-type: none"> <li>• <i>Corporate Governance Guideline</i></li> </ul>   | <p>Adoption of the OSFI Corporate Governance Guideline by FICOM is under review; however, FICOM requests that BC insurers continue to apply an Enterprise Risk Management (ERM) framework in the meantime.</p>  |
| <ul style="list-style-type: none"> <li>• <i>Guideline B-2: Large Exposure Limits</i></li> <li>• <i>Guideline B-2: Investment concentration Limit for Property and Casualty Insurance Companies</i></li> <li>• <i>Guideline B-3: Sound Reinsurance Practices and Procedures</i></li> </ul> | <p>FICOM intends to adopt these additional guidelines that represent the industry's best practices. It is encouraged that you adhere to these practices.</p>  |