



Index DA No. 21

REINSURANCE WITH A RELATED PARTY

Legislative Authorities

- Sections 523 and 597 of the *Insurance Companies Act* (ICA)

Information Requirements

Reinsurance Risk Management Policy (RRMP)

The applicant is generally expected to provide:

1. confirmation that the applicant's board of directors (Board) or chief agent, as applicable, has reviewed and approved the applicant's RRMP in accordance with OSFI's [Guideline B-3: Sound Reinsurance Practices and Procedures \(Guideline B-3\)](#); and
2. details regarding the due diligence carried out by the applicant in respect of the related party with which the applicant proposes to cause itself to be reinsured¹ (Reinsurer), including a confirmation that the due diligence performed complies with [Guideline B-3](#), and where applicable, the applicant's RRMP.

Proposed Reinsurer

The applicant is generally expected to provide:

3. the name of the Reinsurer;
4. an analysis in support of the applicant's conclusion that the Reinsurer is a related party² of the applicant, accompanied by a current organization chart (with percentages owned) of the applicant and Reinsurer's corporate group;
5. a summary of the financial services and other key activities carried on by the Reinsurer, including a list of jurisdictions in which the Reinsurer operates and the nature and degree

¹ Please see paragraph 6 of Administrative Guidance below regarding OSFI's views as to when a cedant causes itself to be reinsured for the purposes of sections 523 and 597 of the ICA.

² All references in this Transaction Instruction to the term "related party" means a related party as defined by section 518 and subsection 597(2) of the ICA.

of regulatory oversight applicable to its financial services activities in its home jurisdiction;³

6. the name and contact information of an individual from the Reinsurer's home regulator that is familiar with the Reinsurer's activities;
7. a copy of the most recent:
 - (a) annual report of the Reinsurer,
 - (b) report of the examination in respect of the Reinsurer issued by the Reinsurer's home regulator, if available, or confirmation that the Reinsurer's home regulator reports favourably on the Reinsurer, and
 - (c) report on the Reinsurer issued by a recognized credit rating agency, if available;
8. for each of the most recent three years, copies of the Reinsurer's:
 - (a) annual regulatory filings in the form submitted to the insurance regulatory and/or supervisory authorities in the Reinsurer's home jurisdiction, and
 - (b) financial statements (balance sheet, income statement, statement of changes in shareholders' equity);⁴
9. confirmation that the Reinsurer meets the minimum capital requirements in its home jurisdiction;
10. details of whether the Reinsurer has been the subject of any criminal proceedings or administrative sanctions; and
11. a description of any material direct insurance, reinsurance, retrocession or other business arrangements between the Reinsurer and any entities or persons that are affiliated with, or are related parties of, the Reinsurer.

Proposed Reinsurance Arrangement

The applicant is generally expected to provide:

12. a description of the applicant's objective in seeking to enter into the proposed reinsurance arrangement with the Reinsurer, including details regarding the benefits that are expected to accrue to the applicant as a result of the proposed reinsurance arrangement;
13. a draft copy of each reinsurance contract that the applicant and Reinsurer intend to enter into, accompanied by a description of:
 - (a) the risks that the applicant proposes to reinsure with the Reinsurer,
 - (b) the type and duration of the proposed reinsurance contract(s) with the Reinsurer,

³ The information provided in respect of item 5 must, at a minimum, address prudential supervision and regulation.

⁴ In this regard, the applicant is expected to provide a comparison between the accounting standards used to complete the Reinsurer's financial statements and Canadian generally accepted accounting principles, where applicable.

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- (c) the annual total estimated premiums and/or commissions to be ceded by the applicant to the Reinsurer in respect of each reinsurance contract, including the percentage it represents of the applicant's gross written premiums,
 - (d) the choice of governing law and the manner in which the parties intend to resolve any disputes,
 - (e) the manner in which the parties intend to offset their accounts, and
 - (f) the measures to be taken in the event of an insolvency of either party⁵;
14. a description in table format of the applicant's entire reinsurance program, including the proposed reinsurance arrangement with the Reinsurer, that at a minimum sets out the following information in respect of each reinsurance contract:
- (a) the name of the reinsurer,
 - (b) nature of the reinsurance coverage,
 - (c) cessions and premiums,
 - (d) retention and deductible,
 - (e) attachment point(s),
 - (f) types of limits (expressed in ratios or absolute amounts), and
 - (g) reinstatements;
15. a confirmation as to whether the applicant intends to claim capital credits (in the case of a company), or asset credits (in the case of a foreign company), in respect of its reinsurance arrangement with the Reinsurer;
16. where the applicant intends to participate in multi-party reinsurance arrangements with the Reinsurer involving the applicant's corporate group (e.g., global treaties), a description of the settlement of accounts processes relative to those reinsurance arrangements;
17. confirmations from a senior officer⁶ or the chief agent of the applicant that all reinsurance contracts between the applicant and the Reinsurer will:
- (a) conform with [Guideline B-3](#) and the applicant's RRMP,
 - (b) be entered into, renewed, modified or, where applicable, commuted (or otherwise terminated), on terms and conditions at least as favourable to the applicant as market terms and conditions, including the basis on which this assessment is to be made,
 - (c) effect a risk transfer and be accounted for in the appropriate manner, and
 - (d) not result in the Reinsurer insuring in Canada a risk⁷; and
18. where the applicant is a foreign company (i.e., a branch), confirmation that the claims payments by the Reinsurer are to be made in Canada to the chief agent.

⁵ Please see principle 4 of [Guideline B-3](#) for further details of OSFI's expectations in this regard.

⁶ In this Transaction Instruction, a "senior officer" means the chief executive officer or a person that reports to the chief executive officer or the Board.

⁷ In this regard, please see OSFI's [Advisory 2007-01-R1 \(Insurance in Canada of Risks\)](#).

Administrative Guidance

1. Applicants are to refer to the November 8, 2013, [letter](#) from Deputy Superintendent Mark Zelmer to all federally regulated insurers regarding transitional matters relative to approvals of the Superintendent under sections 523 and 597 of the ICA given prior to December 31, 2013.
2. This Transaction Instruction sets out the information requirements and administrative guidance in respect of applications for the approval of the Superintendent under sections 523 and 597 of the ICA. Please note that this Transaction Instruction, and the approval to which it relates, do not limit, modify or supplant any of OSFI's expectations regarding sound reinsurance practices and procedures as set out in [Guideline B-3](#).
3. If granted, the approval of the Superintendent relates to the applicant's intention to cause itself to be reinsured by a specific Reinsurer through one or more reinsurance contracts on an ongoing basis, rather than in respect of a particular reinsurance contract. Where an applicant intends to cause itself to be reinsured by multiple Reinsurers, applications must be submitted in respect of each Reinsurer. Additionally, the applicant must demonstrate that it has a real intention to cause itself to be reinsured by the Reinsurer, as opposed to a mere possibility or vague intention of causing itself to be reinsured by the Reinsurer at some point in the future.
4. Please note that this approval, if granted by the Superintendent, is only in respect of the applicant's intention to cause itself to be reinsured by the Reinsurer and does not relate to any other transactions between the applicant and the Reinsurer that may be captured by the self-dealing restriction set out in the ICA.
5. OSFI expects that the applicant's reinsurance arrangement with the proposed Reinsurer must not be carried out to provide financial support to the Reinsurer, or to "bail out" a Reinsurer, in financial difficulty. In addition, the ICA generally requires that all transactions with related parties be carried out on terms and conditions at least as favourable to the applicant as market terms and conditions. OSFI may, if it has reason to doubt the accuracy of the assessment of this requirement, commission, at the applicant's expense, an independent evaluation.
6. For the purposes of sections 523 and 597 of the ICA, OSFI is of the view that a cedant causes itself to be reinsured on the day that the cedant and the reinsurer(s) become contractually obligated to act in accordance with, or entitled to benefit from, a reinsurance arrangement.
7. Please note that the applicant will be required to provide OSFI with specific information, on an annual basis, about the applicant's reinsurance arrangement with the Reinsurer if this approval is granted (Annual Information). The required Annual Information will typically include the following:

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- (a) an analysis in support of the applicant's conclusion that the Reinsurer continues to be a related party of the applicant, accompanied by a current organization chart (with percentages owned) of the applicant and Reinsurer's corporate group⁸;
 - (b) confirmations from a senior officer or the chief agent of the applicant that each reinsurance contract between the applicant and the Reinsurer:
 - (i) conformed with [Guideline B-3](#) and the applicant's RRMP,
 - (ii) was entered into, renewed, modified or, where applicable, commuted (or otherwise terminated), on terms and conditions at least as favourable to the applicant as market terms and conditions, including the basis on which this assessment was made,
 - (iii) effected a risk transfer and was accounted for in the appropriate manner, and
 - (iv) did not result in the Reinsurer insuring in Canada a risk;
 - (c) a copy of the annual reinsurance declaration⁹ of a senior officer or the chief agent of the applicant;
 - (d) details regarding:
 - (i) any relevant changes made to the applicant's RRMP,
 - (ii) any changes made to the Reinsurer's legal name,
 - (iii) the due diligence performed by the applicant in respect of the continuing suitability of the Reinsurer, including reference to [Guideline B-3](#) and the applicant's RRMP,
 - (iv) the type and duration of the reinsurance contracts entered into, renewed, and/or modified with the Reinsurer, and
 - (v) any reinsurance contracts that were commuted or otherwise terminated with the Reinsurer; and
 - (e) where the applicant is a foreign company (i.e., a branch), a confirmation that all claims payments by the Reinsurer were made in Canada to the chief agent.

- 8. OSFI expects applicants to provide all of the required Annual Information in a single submission to OSFI's Insurance Approvals group.
- 9. While approvals of this type will typically be granted for an indefinite term, applicants should note that the approval will generally be revoked by the Superintendent where the applicant has not been a party to a reinsurance contract with the Reinsurer for more than one year.

⁸ As this approval is only required in relation to reinsurance with a related party that is not also a federally regulated insurer, the approval and its conditions will no longer be in effect if the Reinsurer ceases to be a related party of the applicant.

⁹ Please see the Guideline Administration section of [Guideline B-3](#) for further details regarding the annual reinsurance declaration.

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10. OSFI expects all applicants to promptly advise their OSFI Relationship Manager and OSFI's Securities Administration Unit regarding any changes to the legal name of any Reinsurer following the granting of this approval by the Superintendent.
 11. Requests for approval(s) that are addressed in this document are not subject to a service charge.¹⁰

The information requirements and administrative guidance are intended to satisfy typical applications. They have been derived from OSFI's experience in assessing applications. Applicants who provide all information and material requested can generally expect a more timely assessment of their applications. As appropriate to the circumstances, OSFI may request additional information, take into account other matters, impose terms and conditions, or require undertakings.

¹⁰ Please see [Charges for Services Provided by the Office of the Superintendent of Financial Institutions Regulations 2002](#).