

Reinsurance Review Update

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On October 28, 2019, the Office of the Superintendent of Financial Institutions Canada (OSFI) held its annual P&C risk management seminar in Toronto (the Seminar).

OSFI provided an update with respect to numerous initiatives impacting the property & casualty industry, including the status of the ongoing Reinsurance Review which began in June 2018 with the release of the Discussion Paper on the Reinsurance Framework (the Discussion Paper). As part of the Reinsurance Review, OSFI indicated its intention to introduce a rule to limit the size of policies provided by P&C federally regulated insurers (FRIs) in certain circumstances in OSFI Guideline B-2 – *Large Exposure Limits* (Guideline B-2). The proposed rule would restrict the maximum policy limit that a P&C FRI could issue depending upon its capital level and excess collateral, as well as the diversity of its reinsurance counterparties and would require the FRI to meet certain stress testing scenarios. The proposed rule has raised extensive criticism in the P&C industry. There has also been significant lobbying by the P&C industry with both OSFI as well as the Ministry of Finance.

At the Seminar, OSFI announced that a revised proposal regarding policy limits would appear in draft Guideline B-2, based on comments received from OSFI and the results of the quantitative impact study. Much to the P&C industry's relief, it is anticipated that draft Guideline B-2 will contain stress testing requirements that are more manageable for the commercial insurers writing large limits in Canada. Draft Guideline B-2 will likely be released in February 2020 or slightly thereafter, with a view to issuing the final Guideline in summer 2020. OSFI stressed the importance of ongoing dialogue with the P&C industry and assured the audience that draft Guideline B-2 is not intended to be a "near-final" version of the Guideline and is intended to relaunch industry discussion. The final implementation date of Guideline B-2 has not been determined.

The Discussion Paper also proposed clarifications to OSFI Guideline B-3 – *Sound Reinsurance Practices and Procedures* (Guideline B-3). Draft Guideline B-3 was published on June 12, 2019 for public consultation. OSFI assured attendees of the Seminar that although a further revised draft Guideline B-3 may not be issued for consultation prior to final publication, many aspects of the Guideline would be adjusted, particularly in areas where concerns have been raised by the industry. Among other matters, we expect that revised Guideline B-3 will clarify the requirement to pay reinsurance receivables directly to the cedant in Canada.

The Discussion Paper also indicated that OSFI may request additional information for Related Party Reinsurance Applications and expand the scope of the annual information submissions. No additional information was provided at the Seminar in this regard; however, we understand that the annual information submission requirements will work in tandem with revised Guidelines B-2 and B-3. Therefore, the revised Guidelines may inform any additional information requirements.

Conclusion

It appears that OSFI has heard the industry's concerns and that they will be reflected in the revised versions of Guideline B-2 and Guideline B-3 that will be released in 2020. It will be interesting to see how OSFI balances its concerns with large exposures and concentration risk while permitting insurers to continue providing capacity in Canada without significant amounts of additional capital being required.