

To B-2 Or Not To B-3: OFSI Releases Much-Anticipated Updates to Reinsurance Guidance

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Guideline B-3, Sound Reinsurance Practices and Procedures

Guideline B-2, Property and Casualty Large Insurance Exposures and Investment Concentration

effective January 1, 2025

I. Guideline B-3

Stress Testing

More (and More Frequent) Due Diligence on Reinsurers

equally

Regular Senior Management Consideration

Cessions to Home Office

Ceding Limits and Retaining Underwriting Expertise

1. Concerns with purely fronting insurers – those with no real substantial operations in Canada – who use their valid and subsisting Canadian insurance licenses to write insurance risks in Canada and then cede all, or substantially all, of those risks outside Canada.
2. Concerns with underwriting expertise - when an FRI reinsures all, or substantially all, of its insurance risks, the underwriting expertise for such risks may not be maintained within the FRI. Rather, the FRI is relying entirely on underwriting expertise of its reinsurers. It will be interesting to see how OSFI reconciles this with the realities of a global insurance marketplace, where international insurance groups leverage – to Canadian insureds' benefit – specialized underwriting expertise that exists outside of Canada within an affiliated reinsurer.

New Required Insolvency Clauses

- **In reinsurance agreements with non-affiliated reinsurers** – an insolvency clause stipulating that, in the event of the FRI’s insolvency, all reinsurance receivables are paid directly to the FRI in Canada or to a person acting for, or on behalf of, the FRI in Canada.
- **In reinsurance agreements with affiliated reinsurers** – an insolvency clause stipulating that all reinsurance receivables are paid directly to the FRI in Canada or to a person acting for, or on behalf of, the FRI in Canada.

II. Guideline B-2

Gross Underwriting Limit Policy

1. It should define what constitutes a “Single Insurance Exposure” by class of insurance, as appropriate. An FRI could aggregate insurance exposures across multiple coverages and/or classes of insurance.
2. It should establish limits by class of insurance for the level of gross insurance risk that the FRI is willing to accept in respect of a maximum loss related to a Single Insurance Exposure.
3. An FRI’s senior management should review it at least annually. While OSFI expects senior management to review the GUWP at least annually, to demonstrate heightened prudence, an FRI may wish to incorporate a discussion of the GUWP as a regular agenda item for senior management meetings.

Property	The aggregated insurance exposures on in-force policies at a single location, including any exposures subject to the location.
Credit	The aggregated insurance exposures on in-force policies to any one single buyer or group of connected buyers.
Surety	The aggregated insurance exposures on in-force bonds to any one single contractor or group of connected contractors.
Title	The aggregated insurance exposures on in-force policies related to the legal title for a single location.

Insurance Limit Exposure

Insurance Companies	i. 100 percent of Total Capital Available ¹ where any entity in the P&C FRI’s control chain is a) a widely held company, and/or b) a regulated financial
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Foreign Branches

institution; ii. 25 per cent of Total Capital Available otherwise.

100 percent of Net Assets Available² of the foreign branch

Investment Concentration Limits

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Conclusions

¹ The consolidated total available capital of a company as defined for the purpose of calculating the Minimum Capital Test (MCT) / Mortgage Insurer Capital Adequacy Test (MICAT).

² The net assets available as defined for the purposes of calculating the Branch Adequacy of Assets Test (BAAT).

³ An asset or item acquired with the goal of generating income or appreciation, excluding loans to, and loans guaranteed or securities issued or guaranteed by the Government of Canada, a Canadian province or a member jurisdiction of the Organisation for Economic Co-operation and Development (OECD).

This publication is a general summary of the law. It does not replace legal advice tailored to your specific circumstances.