BC FINANCIAL SERVICES AUTHORITY

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VIA EMAIL

TO: CEOs and Board Chairs, BC Incorporated Property and Casualty Insurers

RE: Revised Guide to Intervention – BC Property and Casualty Insurers

The BC Financial Services Authority (BCFSA) is releasing its revised guide to intervention for BC incorporated property and casualty (P&C) insurers. This guide outlines supervisory actions that BCFSA will take based on a P&C insurer's risk profile.[1]

BCFSA considers the unique structure of each insurer including the nature, scope, complexity, and risk profile when determining the level of intervention. As such, not all supervisory actions outlined in this guide will apply in every circumstance.

Revisions to this guide are largely aimed at providing increased clarity regarding insurer risk profiles and typical supervisory actions, as well as providing information regarding BCFSA's interactions and information sharing with the Property and Casualty Insurance Compensation Corporation (PACICC) throughout the intervention process.

For more information, please contact your Relationship Manager or Rob O'Brien, Manager, Policy at Rob.OBrien@bcfsa.ca.

Regards,

Frank Chong

Frank Chong
VP and Deputy Superintendent, Regulation

[1] As represented by the Composite Risk Rating (CRR) under BCFSA's supervisory framework. The supervisory framework details the process for assessing the safety, stability, and conduct of insurers.

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Guide to Intervention

April 2020

BC PROPERTY AND CASUALTY INSURERS

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PURPOSE

The Guide to Intervention[1] (guide) sets out the supervisory actions that the BC Financial Services Authority (BCFSA)[2] may take to address concerns identified with a regulated insurer. The guide applies to all British Columbia incorporated property and casualty (P&C) insurers.

ROLES AND RESPONSIBILITIES

Part of BCFSA's mandate is to protect the public from undue harm resulting from an insolvency. BCFSA conducts supervisory work, which includes monitoring and periodic risk-based assessments, of the insurers it regulates in order to identify at an early stage, potential concerns that may adversely impact the insurer. Depending on the nature of the concern, BCFSA may initiate corrective action or otherwise intervene. In doing so, BCFSA may work with regulators from other jurisdictions.

All authorized insurers are required under section 66 (2) of the *Financial Institutions Act* to be a member of a designated compensation plan. For the P&C industry that plan is the Property and Casualty Insurance Compensation Corporation (PACICC)[3]. BCFSA works with PACICC and the liquidator when an insurer is placed into liquidation.

INTRODUCTION

In order to establish an effective risk-based supervision framework, two key concepts must be addressed: risk assessment and intervention.

Risk Assessment

The supervisory framework is a resource that sets out the principles, concepts, and core processes that BCFSA uses to guide its supervision of P&C insurers. It establishes an insurer's risk profile and assigns a corresponding composite risk rating (CRR).[4]

Intervention

The guide to intervention is a resource which sets out levels of intervention[5] commensurate with a P&C insurer's risk profile. It helps determine and organize supervisory actions, outlines clear timetables, and identifies problems which pose a risk to policyholders.

A fundamental aspect of risk-based supervision is the relationship between the risk profile of an insurer and the nature of supervisory actions taken in response to that assessment. This relationship is outlined in BCFSA's response matrix.

BCFSA'S RESPONSE MATRIX

[1] This guide should be read in conjunction with BCFSA's Supervisory Framework

[2] References to BCFSA may include staff, the Superintendent and the Board.

[3] For more information about the role of PACICC please visit its website.

[4] The CRR is based on an assessment of the insurer's earnings and capital in relation to the overall net risk arising from its significant activities and its access to liquidity.

[5] Referred to as intervention stage ratings in BCFSA's response matrix.

The response matrix, as shown below, is an alignment of the CRR and intervention stage ratings. The CRR and intervention stage ratings are provided to a P&C insurer's board of directors and senior management in BCFSA's supervisory letters.

Stage Rating	Composite Risk Rating (CRR)			
	Low	Moderate	Above Average	High
0				
1				
2				
3				
4				

INTERVENTION STAGES

This guide describes the risk profile for each stage rating and indicates supervisory actions that typically occur as well as co-ordinated activities which may occur between BCFSA and PACICC at a given stage. The intervention process is not fixed as circumstances may vary from case to case. It is not a rigid regime under which every situation is necessarily addressed with a predetermined set of actions. The guide aims to communicate at which stage an action would typically occur. However, the actions described at one stage are also used in later stages and, in some situations, certain actions may also take place at earlier stages than set out in the guide. Staging occurs at the discretion of the Superintendent or Board.

The tables below outline risk profiles and typical supervisory actions for each stage rating:

Stage 0 *Risk Profile (Low and No Significant Problems or Threats Identified)* The insurer has a sound financial position and sufficient governance and risk control frameworks for its nature, scope, complexity, and risk profile. Its position is within industry norms. Its practices do not indicate significant problems or control deficiencies. The insurer is not expected to fail or pose any undue loss to policyholders in any foreseeable circumstance. Issues of a minor nature may be offset by access to capital from a parent company or other stable funding source.		
BCFSA's activities/responsibilities may involve:	**Co-ordinated activities/responsibilities between BCFSA and PACICC may involve:**	**PACICC's activities/responsibilities may involve:**
Assessing the financial situation and operating performance of the company. Reviewing information received through statutory filings, financial reporting requirements, publicly available sources and management reporting, including minutes of the board and board Committee meetings. Conducting meetings with management, internal and external auditors and/or board. Conducting regular risk-based supervisory reviews of the company (onsite and/or through monitoring). Providing the board and/or management with a supervisory letter that summarizes the results of supervisory work and provides the composite risk rating (CRR) and stage rating. Requesting that the insurer provide a copy of	BCFSA is invited to attend all PACICC Board meetings. BCFSA receives all materials provided to Board members at these meetings. If necessary, PACICC discussing with BCFSA the results of their analysis of information disclosed to them by the company. PACICC informing BCFSA of any material fact that may be brought to its attention regarding the company.	PACICC pursuing its analysis activities based on the information disclosed directly by the company. PACICC monitoring and reviewing public information.

the supervisory letter to the external auditor and appointed actuary. Advising the insurer of any corrective measures required to maintain the current stage rating. Monitoring any corrective actions being taken by the insurer, including requesting additional information and/or conducting follow-up supervisory reviews. Other supervisory activities as required or at the discretion of the market conduct and supervision teams.		

Stage 1 ***Risk Profile (Moderate to Above Average with Some Concerns)*** An insurer categorized at this stage is still considered to be in good financial condition but there have been some deficiencies identified in its management practices and/or its financial condition is declining. While these concerns are not expected to pose any immediate threat to the insurer's long-term viability or to policyholders, if the concerns are not actively addressed they could lead to a worsening of the insurer's position. The presence of vulnerabilities in an insurer's risk profile leads to more extensive oversight from BCFSA. At stage 1, the insurer is expected to implement an improvement plan to rectify or address identified concerns and commit to reducing its stage rating. BCFSA expects an insurer to return to stage 0 within the timeframes established by its improvement plan.		
In addition to activities/responsibilities in the preceding stage:		
BCFSA's activities/responsibilities may involve:	**Co-ordinated activities/responsibilities between BCFSA and PACICC may involve:**	**PACICC's activities/responsibilities may involve:**

Providing formal notification to the board and senior management of the increase in stage rating and BCFSA's expectations for the issues to be addressed. Increased monitoring and/or more targeted on-site reviews by supervision and specialist teams. More frequent and detailed collection and analysis of data. Instructing the insurer to conduct stress testing or develop revised business plans and risk appetites. Periodic communications with the board, senior management, and internal and external auditors to monitor the insurer's progress in returning to normal conditions. Special examinations by external experts. Entering into an undertaking or voluntary compliance agreement with the insurer, for the purposes of implementing any measure designed to maintain or improve the safety and soundness of the company.	BCFSA informing PACICC's PIRL Committee that it has moved the company to stage 1, the reasons for change in staging and any action that BCFSA is planning to take.	Analyzing relevant public information and information obtained directly from the company or from Regulators. PACICC sharing concerns with and/or asking questions of BCFSA.

Stage 2 ***Risk Profile (Above Average to High with Material Concern)*** The insurer's core activities have been impacted by deficiencies identified in Stages 0 and 1 and/or by a shock or stress event. Improvements are needed as the insurer's business operations or circumstances demonstrate a clear path to harm for policyholders when compared with industry norms. The insurer is unlikely to fail in the short-term, but this expectation relies on BCFSA's view that supervisory intervention is necessary to help avert any failure. At stage 2, the insurer must address identified problems or implement improvements to quickly reduce its stage rating. The board and senior management must demonstrate a commitment to improvement by establishing urgent timelines. BCFSA expects an insurer to reduce its stage rating within this timeframe. BCFSA may require an insurer to commit to improvements through a supervisory letter or an undertaking agreed to by the insurer.

In addition to activities/responsibilities in preceding stages:		
BCFSA's activities/responsibilities may involve:	**Co-ordinated activities/responsibilities between BCFSA and PACICC may involve:**	**PACICC's activities/responsibilities may involve:**
Placing conditions or prohibitions on the insurer's business authorization Conducting special reviews of the insurer's actuarial reserves. Restricting business activities such as payments of dividends or management fees or require adjustments to product offerings or pricing. Notifying the BCFSA Board of the insurer's move to Stage 2. Requiring the insurer to:	BCFSA informing PACICC's PIRL Committee that it has moved the company to stage 2, the reasons for change in staging and any action that BCFSA is planning to take. PACICC sharing knowledge about the staged company with BCFSA, as appropriate. BCFSA informing PACICC's PIRL Committee of results and data obtained from enhanced supervisory reviews, expanded audits and enhanced monitoring. BCFSA commencing contingency planning	PACICC requesting and analyzing information from BCFSA, including: • Business plan obtained from the company reflecting its remedial measures; • Reports and results of BCFSA regulatory and special examinations; • Mandate, scope and results of work done by auditors; and • Mandate, scope and results of work completed by actuaries.

• revise business plans to include remedial actions and timelines to address concerns identified by BCFSA; • meet additional and more frequent reporting requirements; • increase capital and/or liquidity; • reduce risk retention; • reduce or exit lines of business; • take remedy actions; • improve capital composition; • undergo a special audit or actuarial review; • develop contingency, recovery, resolution or restructuring plans; and • enter into an undertaking or voluntary compliance agreement with BCFSA. The insurer's progress in meeting these requirements is assessed through increased on-site reviews and/or monitoring by BCFSA.	in consultation with PACICC's PIRL Committee (although in unusual circumstances, this could occur at Stage 1). PACICC meeting with BCFSA as required to discuss Stage 2 companies in depth. BCFSA providing PACICC's PIRL Committee with information that may include: • reports and results of BCFSA's regulatory and special inspections; • the most recent actuarial reports, Dynamic Capital Adequacy Testing and Own Risk and Solvency Assessment; • the mandate of actuaries, as well as the scope and results of their work; • the mandate given to the independent auditor, as well as the scope and results of the auditor's work; and • the company's business plan outlining the remedial measures.	

Stage 3 ***Risk Profile (High and Viability in Doubt)*** The insurer has severe safety and stability concerns and is experiencing problems that are expected to pose a material threat to viability or solvency unless immediate measures are taken. The insurer has failed to remedy the issues identified in stage 2 and/or has suffered a severe shock and its situation is worsening. At stage 3, the insurer will be directed via supervisory letter or undertaking to immediately resolve issues or implement mandated improvements. BCFSA expects immediate actions to reduce its stage rating.

In addition to activities/responsibilities in preceding stages:		
BCFSA's activities/responsibilities may involve:	**Co-ordinated activities/responsibilities between BCFSA and PACICC may involve:**	**PACICC's activities/responsibilities may involve:**
BCFSA staff being present at the company to monitor the situation on an ongoing basis. Issuing corrective action orders to remedy concerns. Ordering the insurer to produce financial or non-financial records. Restricting the insurer to servicing of existing policies. Requiring the insurer to wind down its activities and sell its assets. Requiring the insurer to explore potential for merging with or being acquired by another	BCFSA and PACICC conducting more in-depth and frequent discussions about the company. Establishing a working group between BCFSA and PACICC's PIRL Committee to co-ordinate the intervention with the company. The working group would be chaired by BCFSA.	Estimating its coverage exposure. PACICC's PIRL Committee analyzing the pros and cons of each intervention option and comparing them against those that may arise from winding up the company, including the costs that may be absorbed by PACICC. Planning, as needed, the funding of its commitments.

insurer. Expanding contingency planning. BCFSA preparing wind-up or liquidation plans. Notifying PACCIC of the potential for insolvency of the insurer.		

Stage 4 ***Risk Profile (High and Insurer Not Viable or is Insolvent)*** The insurer is experiencing severe financial difficulties and has deteriorated to such an extent that there is insufficient capital to protect policyholders from undue losses.		
BCFSA's activities/responsibilities may involve:	**Co-ordinated activities/responsibilities between BCFSA and PACICC may involve:**	**PACICC's activities/responsibilities may involve:**
Withdrawing business authorization. Seeking arrangements for the insurer's existing contracts. Placing the insurer into liquidation. Notifying PACICC of the insolvency.	BCFSA informing other relevant regulatory agencies included under Section 219.1 of the FIA of proposed regulatory intervention measures that will be applied to the company. BCFSA discussing with PACICC's PIRL Committee the steps to be followed that may involve: • withdrawing business authorization; • proceeding to liquidation, and • identifying a liquidator.	PACICC obtaining Board commitment to provide coverage in the event of liquidation. Proceeding with planning an assessment to raise funds required to meet coverage obligations in anticipation of the Winding-up Order being issued. This can happen at any time. Where appropriate, planning for an orderly commencement to liquidation with the assistance of the appointed liquidator, including: • collaborating on the company`s winding-up process;

	PACICC's PIRL Committee discussing with BCFSA the implementation of the liquidation contingency plan prepared during Stage 3.	• acting as inspector for the winding-up; • preparing a communication plan with the industry; • obtaining commitment from PACICC's Board of Directors to provide coverage; • establishing funding and reporting arrangements during liquidation, in accordance with PACICC`s By-Law No. 1 and Memorandum of Operation; • planning an assessment to raise funds required for compensation; • developing strategies with the liquidator for operating the company in liquidation; and • compensating policyholders.