Advisory

Consultation on Adoption of OSFI's B-2, B-3, B-10, and E-21 Guidelines

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PURPOSE

BC Financial Services Authority ("BCFSA") is launching a consultation on its adoption of four guidelines published by the Office of the Superintendent of Financial Services ("OSFI") that apply to B.C. incorporated insurance companies ("insurance companies"). The guidelines have been put onto BCFSA templates and adjusted to fit the B.C. operating environment. This consultation will include meetings with B.C. insurance companies as well as provide B.C. insurance companies, industry stakeholders and the public an opportunity to submit written feedback.

The four guidelines for consultation are:

- P&C Large Insurance Exposures and Investment Concentration ("B-2");
- Sound Reinsurance Practices and Procedures ("B-3");
- Third-Party Risk Management ("B-10"); and
- Operational Risk Management and Resilience ("E-21").

We invite interested parties to view the draft guidelines and provide comments on any challenges to implementation as well as implementation timelines **by completing our Consultation Feedback Form**. The consultation will be open from April 8, 2025, until July 8, 2025.

The publication of the final guidelines is planned for late summer 2025, and BCFSA will implement these guidelines using a phased approach to allow B.C. insurance companies to manage the transition to a number of new guidelines. The proposed effective date for B-10 will be in Winter 2025 and for E-21 will be in Winter 2026. Guideline B-2 will follow with a proposed effective date in Spring 2026 and finally B-3 will have a proposed implementation date in Spring 2027.

BACKGROUND

As part of the new OSFI guideline review process, BCFSA has identified four recently published OSFI guidelines for adoption and has drafted versions of those guidelines on BCFSA templates. The guidelines resemble the original OSFI guidelines as closely as possible, to promote harmonization across jurisdictions and ensure equity and fairness for the insurance segment.

To promote transparency, BCFSA is providing insurance companies with the opportunity to provide feedback, particularly on any unforeseen challenges or considerations when it comes to implementation, as well as implementation timelines.

HOW TO PARTICIPATE

We encourage all insurance companies and other interested parties to review the draft guidelines and participate in the consultation **by completing our online Consultation Feedback Form by July 8, 2025**.

BCFSA values the feedback it receives during consultations and will consider and apply input received during the consultation as appropriate to finalize the draft Guidelines.

If you have any questions about this Advisory, please contact Heather Sinke at policy@bcfsa.ca.

ADDITIONAL INFORMATION

- Draft P&C Large Insurance Exposures and Investment Concentration Guideline (“B-2”)
- Draft Sound Reinsurance Practices and Procedures (“B-3”)
- Draft Third-Party Risk Management (“B-10”);
- Draft Operational Risk Management and Resilience (“E-21”)
- Consultation Feedback Form
- Consultation on Adoption of OSFI’s B-2, B-3, B-10, and E-21 Guidelines

APPENDIX – Notes on B-3

Ceding "Substantially All" and Fronting

OSFI received feedback on their B-3 that it lacked clarity around ceding "substantially all" of certain lines of business. BCFSA acknowledges that insurance companies will sometimes enter into fronting arrangements or will cede "substantially all" of certain lines of business for valid business reasons. B-3 does not restrict insurance companies from engaging in such arrangements but rather seeks to address those situations that raise potential prudential concerns.

BCFSA generally applies the concept of "substantially all" in a manner consistent with that used in the context of assumption reinsurance and asset sale transactions. BCFSA will, however, continue to supervise such business arrangements on a case-by-case basis.

Reinsurance Counterparties

OSFI also received feedback regarding reinsurance counterparties with affiliated reinsurance. BCFSA recognizes that there are operational efficiencies to using affiliated reinsurance. However, in the context of a group-wide stress scenario, BCFSA is of the view that the risk of an affiliated reinsurer not honouring its obligations is as great as that of a non-affiliated reinsurer.

Some feedback also argued that the current practice of relying on third parties, such as reinsurance brokers and rating agencies, including ongoing discussions between the parties to the reinsurance contract, is sufficient to assess the reinsurance counterparty risk. BCFSA would like to note that the ceding insurance company retains the liability in the event a reinsurer is unable to meets its obligations. In order to protect policyholders, therefore, BCFSA expects the ceding insurer to be responsible for, and to monitor, its ceded business.

For example, if an insurer is ceding a significant portion of its business to a reinsurer who, in turn, retrocedes 100 percent of this business to a single entity, BCFSA expects the insurer to actively monitor the solvency position of the retrocessionaire.

Flow of Reinsurance Payments

Feedback received by OSFI also included notes on the flow of reinsurance contracts. BCFSA recognizes the global nature of reinsurance contracts. However, insolvency regimes are unique to each jurisdiction, which determines the collectability of reinsurance in a distress scenario. The requirement for reinsurance to be collectible in Canada is an alternative to additional capital or collateral being held in Canada. Most jurisdictions have similar requirements designed to protect the interests of their policyholders in the event of an insolvency of the insurer.