

**SUPERVISORY GUIDE APPLICABLE TO
FEDERALLY REGULATED INSURANCE COMPANIES**

STAGE – Circumstances	OSFI ACTIVITIES/INTERVENTION
<p><u>No problems /Normal Activities</u></p> <p>On-going supervisory and regulatory activities applying to all federally regulated Canadian and foreign life and p&c insurance companies (companies), pursuant to OSFI's mandate. In addition, OSFI conducts research and analyses industry-wide issues and trends.</p>	<p>Incorporation of new Canadian companies and issuance of orders to carry on business to Canadian and foreign companies:</p> <ul style="list-style-type: none"> ▪ review and assess all relevant documents and information ▪ make recommendations to Minister. <p>Review and assess wide range of applications and requests for regulatory consents required by statute including:</p> <ul style="list-style-type: none"> ▪ corporate reorganizations ▪ changes in ownership ▪ acquisitions of other financial institutions ▪ transfers of business ▪ changes in classes of insured risks ▪ withdrawals from the Canadian insurance market <p>Ongoing monitoring of companies based on information obtained from statutory filings, financial reports and other sources:</p> <ul style="list-style-type: none"> ▪ assess financial condition and operating performance ▪ verify compliance with statutory and other regulatory requirements. <p>Periodic on-site examinations of companies as required by statute:</p> <ul style="list-style-type: none"> ▪ inform management and board of directors of findings ▪ request that management provide copy of report to external auditors ▪ require that concerns be addressed by company ▪ monitor remedial measures if required. <p>OSFI informs Minister of status of companies.</p>

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<p><u>Stage 1 - Early Warning</u></p> <p>Deficiency in policies or procedures or the existence of other practices, conditions and circumstances that could lead to the development of problems described at Stage 2. Situation is such that it can be remedied before it deteriorates into a Stage 2 problem.</p>	<p>Company notified of concerns and requested to take measures to rectify situation.</p> <p>Monitoring of remedial actions may involve requests for additional information and/or follow-up examinations.</p> <p>OSFI may require that company's external auditor enlarge scope of examination of company's financial statements or that external auditor perform other procedures, and prepare a report thereon. OSFI may assign cost of external auditor's work to company.</p> <p>OSFI may require external review of company's actuarial methods and assumptions.</p>

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<p><u>Stage 2</u> – Risk to financial viability or solvency</p> <p>Situations or problems that, although not serious enough to present an immediate threat to financial viability or solvency, could deteriorate into serious problems if not addressed promptly, as evidenced by:</p> <ul style="list-style-type: none"> ▪ Concerns over the company's ability to meet capital and surplus, or vesting requirements on an ongoing basis ▪ Poor earnings, operating losses or deterioration in the profitability of the company's business ▪ Concerns regarding appropriateness of actuarial reserves ▪ Undue exposure to off-balance sheet risk ▪ Low level of accessible liquidity or poor liquidity management in context of the company's situation ▪ Less than satisfactory management quality or deficiency in management procedures or controls ▪ Other concerns arising from <ul style="list-style-type: none"> ○ a financially weak or troubled owner ○ non-compliance with regulatory requirements ○ systemic issues such as exposure to major insurance catastrophes ○ rapid growth ○ credit rating downgrades ○ qualified report of external auditor or appointed actuary ○ increased risk exposure as identified by DST or business plan 	<p>Senior OSFI officials meet with management and board of directors of company and external auditor of company to outline concerns and discuss remedial actions.</p> <p>Company must provide an acceptable business plan to OSFI that reflects appropriate remedial measures that will rectify problems within a specified time frame.</p> <p>Monitoring of company is enhanced as to frequency of reporting requirements and/or the level of detail of information submitted.</p> <p>Progress of remedial measures is monitored via reporting requirements and/or follow-up examinations.</p> <p>Scope of on-site examination and/or frequency of on-site examinations may be enlarged or increased.</p> <p>External auditor of company may be required to perform a particular examination relating to the adequacy of the company's procedures for the safety of its creditors, shareholders and policyholders, or any other examination that may be required in the public interest, and report thereon to OSFI. OSFI may assign cost of external auditor's work to company.</p> <p>External actuary may be required to perform a review of the appropriateness of the company's actuarial reserves.</p> <p>Superintendent may direct company to modify its actuarial assumptions and methods.</p> <p>Business restrictions appropriate to circumstances may be imposed on company via undertakings provided by the company, restrictions on the company's order to carry on business or via direction of compliance covering such matters as:</p> <ul style="list-style-type: none"> ▪ payments of dividends or management fees ▪ level of indebtedness ▪ yield offered on annuity products ▪ lending or investment powers ▪ business acquisitions ▪ level of premiums ▪ other restrictions tailored to circumstances <p>Company is placed on regulatory 'watchlist'; management and board of directors are formally notified.</p> <p>OSFI sends a 'watchlist' progress report at least monthly to Minister; report is discussed in regular meetings with Minister.</p> <p>Status of company discussed with relevant compensation fund and with provincial insurance regulators.</p> <p>Company may be discussed at Financial Institutions Supervisory Committee.</p> <p>OSFI commences contingency planning.</p>

STAGE – Circumstances	OSFI ACTIVITIES/INTERVENTION
<p><u>Stage 3</u> – Future financial viability in serious doubt</p> <p>Situations or problems described at Stage 2 are at a level where they pose a material threat to future financial viability or solvency unless effective corrective measures are applied promptly.</p>	<p>Management, board of directors and external auditor of company are informed of problems.</p> <p>Business plan must reflect appropriate remedial measures that will rectify problems within a set time frame so as to avoid triggering impaired viability or impaired solvency procedures (see Stage 4).</p> <p>Monitoring of company may be further enhanced as to frequency of reporting requirements and/or the level of detail of information submitted so as to monitor progress of remedial measures.</p> <p>Follow-up examinations may be carried out as required.</p> <p>Enhanced examinations may be carried out focussing on particular areas of concern such as asset or loan security valuations or the determination of actuarial reserves. Such examinations may involve any of the following:</p> <ul style="list-style-type: none"> ▪ substantial increase in sampling of credit files ▪ more in-depth reviews of files ▪ engagement of specialists or professionals to assess certain areas such as quality of loan security, asset values, appropriateness of actuarial reserves, etc. <p>Depending on situation, OSFI examination staff may be posted at company to monitor situation on an ongoing basis.</p> <p>A special audit may be required from an auditor other than the company's own external auditor if OSFI is of the opinion that it is required. OSFI may assign cost of external auditor's work to company.</p> <p>A special review of the company's actuarial reserves may be required from an external or independent actuary to assess the adequacy of reserves under the circumstances.</p> <p>Superintendent may direct company to increase its capital or assets in Canada.</p> <p>Depending on circumstances, business restrictions may be enhanced or additional ones imposed on company.</p> <p>Depending on circumstances, pressure may be exerted on management and board of directors to restructure company or to seek out an appropriate prospective purchaser.</p> <p>OSFI develops contingency plan for taking rapid control of the assets of the company if changes in circumstances so warrant.</p>

STAGE – Circumstances	OSFI ACTIVITIES/INTERVENTION
<p><u>Stage 4</u> – Company not viable/insolvency imminent</p> <p>Severe financial difficulties resulting in</p> <ul style="list-style-type: none"> ▪ failure or imminent failure to meet required capital and surplus requirements or vesting requirements in conjunction with inability to rectify the situation within a short period of time <p>or</p> <ul style="list-style-type: none"> ▪ statutory conditions for taking control being met <p>or</p> <ul style="list-style-type: none"> ▪ failure to develop and implement an acceptable business plan, thus making either of the two preceding circumstances inevitable within a short period of time. 	<p>Pressure to rectify situation is exerted on management and board of directors of company through frequent meetings with senior OSFI officials.</p> <p>OSFI notifies management and board of directors of company of intended regulatory intervention measures that will be taken unless situation is rectified quickly.</p> <p>New business restrictions may be imposed on company or existing restrictions may be expanded.</p> <p>OSFI formally notifies the board of the compensation fund of the situation and of proposed regulatory intervention measures (Senior OSFI officials are likely to meet board of compensation fund to discuss situation).</p> <p>Other relevant regulatory agencies (provincial or foreign) are notified of proposed regulatory intervention measures to be applied to company.</p> <p>If statutory conditions for taking control of assets exist and if circumstances are such that there is an immediate threat to the safety of policyholders and creditors, OSFI may take control of the assets of the company for a short period.</p> <p>If statutory conditions exist, such as failure to comply with direction to increase capital or assets in Canada, and subject to representations made to the Superintendent, OSFI may maintain control of assets or take control of the company.</p> <p>If the company meets any of the conditions that would make it eligible to be wound up pursuant to the Windingup Act, the company itself may voluntarily seek a winding-up order. Alternatively, OSFI may seek winding-up order. Minister may overrule this decision on grounds of public interest only.</p>