



MEMORANDUM

Date: November 8, 2013

To: Federally Regulated Insurers

Subject: Superintendent approvals for reinsurance with a related party

Pursuant to sections 523 and 597 of the *Insurance Companies Act* (ICA), the prior approval of the Superintendent is required where a federally regulated insurer (FRI) intends to cause itself to be reinsured by a related party that is not also an FRI (Related Reinsurer). Currently, such approvals under the ICA are granted in respect of each reinsurance arrangement and the information requirements in respect of a request for this approval are set out in [Transaction Instruction DA No. 21](#).

After January 1, 2014, approvals will generally be granted in respect of each Related Reinsurer as opposed to each reinsurance arrangement with a Related Reinsurer. That is, the approval of the Superintendent will relate to the applicant's intention to cause itself to be reinsured – through one or more reinsurance arrangements on an ongoing basis – by a specific Related Reinsurer rather than in respect of each particular reinsurance arrangement. This revised approach is expected to better align with reinsurance industry practices, which frequently see FRIs entering into multiple reinsurance arrangements with the same Related Reinsurer, often on very short notice. In addition to allowing FRIs more flexibility in managing their reinsurance programs, we believe that the revised approach will provide OSFI with additional insight into FRIs' risk exposure to Related Reinsurers.

A revised Transaction Instruction will be published on OSFI's website prior to December 31, 2013. The revised Transaction Instruction will set out the general information requirements in support of an FRI's application for the Superintendent's approval in respect of an FRI's intention to cause itself to be reinsured with a Related Reinsurer. Under this revised approach, approvals will typically be granted for an indefinite term, however, approvals will be conditional on the FRI annually providing certain information to OSFI. The information that will generally be required on an annual basis will be set out in the revised Transaction Instruction. In addition, where such an approval is granted, the specific information that the FRI will be required to provide to OSFI on an annual basis, as a condition of that approval, will be set out in the Notice of Approval letter sent to the FRI.



The Appendix to this memorandum provides transitional guidance in relation to different situations. In summary,

- Where an FRI has obtained approval of a reinsurance arrangement with a Related Reinsurer for a defined period under the current approval process, that approval will be extended until June 30, 2015, and the FRI is expected to apply for approval of its existing Related Reinsurer(s) under the revised approval process prior to January 1, 2015.
- Where an FRI has obtained approval of a reinsurance arrangement with a Related Reinsurer under the current approval process with no approval expiry date, the FRI is expected to apply for approval of its existing Related Reinsurer(s) under the revised approval process prior to January 1, 2015.
- Where new reinsurance arrangements with a Related Reinsurer - or material changes to existing approved arrangements with a Related Reinsurer – are to be executed¹ on or before January 1, 2014, an FRI should seek the prior approval of the Superintendent under the current approval process (i.e., an approval of the reinsurance arrangement) in accordance with existing [Transaction Instruction DA No. 21](#).
- Where new reinsurance arrangements with a Related Reinsurer - or material changes to existing approved arrangements with a Related Reinsurer – are to be executed² after January 1, 2014, an FRI should seek the prior approval of the Superintendent under the revised approval process (i.e., an approval of the Related Reinsurer) in accordance with the revised Transaction Instruction that will be published on OSFI's website prior to December 31, 2013.

Please direct any questions related to the above to Patrick Clermont, Director, Insurance Approvals at Patrick.Clermont@osfi-bsif.gc.ca or (613) 949-8698.

Mark Zelmer
Deputy Superintendent

¹ The renewal of an existing reinsurance arrangement (i.e., the execution of a new agreement with no material changes from the preceding agreement) does not constitute a new reinsurance arrangement or a material change to an existing arrangement.

² Please see footnote 1 above.

APPENDIX - TRANSITIONAL

Application categories			Transition
Approved reinsurance arrangement	No material change	Defined approval expiry date	Approval extended to June 30, 2015. FRIs are expected to apply for approval under the revised Transaction Instruction (i.e., approval of the Related Reinsurer) by January 1, 2015.
		No approval expiry date	FRIs are expected to apply for approval under the revised Transaction Instruction (i.e., approval of the Related Reinsurer) by January 1, 2015
	Material change	Material change to be executed on or before January 1, 2014	Apply for prior approval under the current Transaction Instruction DA No. 21 (i.e., approval of the reinsurance arrangement)*
		Material change to be executed after January 1, 2014 but before June 30, 2015 <u>and</u> the Related Reinsurer is not the subject of a prior approval under the revised Transaction Instruction	Apply for prior approval under the revised Transaction Instruction (i.e., approval of the Related Reinsurer)
New reinsurance arrangement	Reinsurance arrangement to be executed on or before January 1, 2014		Apply for prior approval under the current Transaction Instruction DA No. 21 (i.e., approval of the reinsurance arrangement)*
	Reinsurance arrangement to be executed after January 1, 2014 <u>and</u> the Related Reinsurer is not the subject of a prior approval under the revised Transaction Instruction		Apply for prior approval under the revised Transaction Instruction (i.e., approval of the Related Reinsurer)

* Note that approvals of these reinsurance arrangements will expire June 30, 2015, and FRIs are expected to apply for approval under the revised Transaction Instruction (i.e., approval of the Related Reinsurer) by January 1, 2015.