Guide to Intervention

MARCH 2014

BC LIFE INSURERS

British Columbia
Financial Institutions Commission

www.fic.gov.bc.ca

PURPOSE

The Guide to Intervention[1] (guide) sets out the supervisory actions that the Financial Institutions Commission[2] (FICOM) may take to address concerns identified with a regulated insurer. The guide applies to all British Columbia incorporated life insurers and life insurance societies (collectively life insurers).

ROLES AND RESPONSIBILITIES

Part of FICOM's mandate is to protect the public from undue harm resulting from an insolvency. FICOM conducts 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, FICOM may initiate corrective action or otherwise intervention. In doing so, FICOM may work with regulators from other jurisdictions and with Assuris.

All authorized insurers are required under the *Financial Institutions Act* to be a member of a designated compensation plan. For the life industry that plan is Assuris. FICOM works with Assuris[3] when an insurer faces significant solvency challenges in order to minimize their impacts on both the policyholders[4] and industry.

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 FICOM uses to guide its supervision of life insurers. It establishes an insurer's risk profile and assigns a corresponding composite risk rating (CRR).

Intervention

The guide to intervention is a resource which sets out levels of intervention[5] commensurate with a life 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 FICOM's response matrix.

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[1] The guide should be read in conjunction with FICOM's supervisory framework.
[2] References to FICOM may include staff, the Superintendent and the Commission.
[3] For more information about the role of Assuris, please visit its website.
[4] Policyholders includes persons who are covered under an insurance policy.
[5] Referred to as intervention stage ratings in FICOM's response matrix.

FICOM'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 life insurer's board of directors and senior management in FICOM'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 at any 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 Commission.

The table below outlines risk profiles and typical supervisory actions for each stage rating:

<table>
<tr>
<td>Stage 0
Normal</td>
<td>Risk Profile (Low and No Significant Problems or Threats Identified)
The life insurer has a sound financial position and sufficient governance and risk control frameworks for its nature, scope, complexity, and risk profile. 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.

Typical Supervisory Actions
Stage 0 actions may include:
periodic on-site reviews;
ongoing monitoring of information received on a monthly, quarterly and/or annual basis;
periodic meetings or discussions with management and/or board;
providing the insurer with a supervisory letter with CRR and stage level;
discussions between Assuris and FICOM regarding the insurer; and
other supervisory activities as required or at the discretion of the supervision and specialist teams.</td>
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<tr>
<td>Stage 1
Early Warning</td>
<td>Risk Profile (Moderate to Above Average with Some Concerns)
A life 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, if not actively addressed they could lead to a worsening of the insurer’s position.

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. FICOM expects an insurer to return to stage 0 (normal) within the timeframes established by its improvement plan.

Typical Supervisory Actions
In addition to normal activities, Stage 1 actions may include:
formal notification provided to the board and senior management of FICOM’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;</td>
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	• periodic communications with the board, senior management and internal and external auditors; • request for stress testing, revised business plans and risk appetites; • special examinations by external experts; • restrict payments of dividends or management fees; • adjustments to product offerings or pricing; • establishing or issuing expectations under an undertaking or voluntary compliance agreement; and • notification provided to Assuris of the staging and ongoing discussions with Assuris.
Stage 2 Risk to Financial Viability or Solvency	**Risk Profile (Above Average to High with Material Concern)** Improvements are needed as the life insurer's business operations or circumstances potentially put policyholders at risk. In this stage, these improvements will be mandated by FICOM. The insurer is unlikely to fail in the short-term, but this expectation relies on FICOM'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. FICOM expects an insurer to reduce its stage rating within this timeframe. **Typical Supervisory Actions** In addition to activities in preceding stages, *Stage 2* actions may include: • requiring recovery or restructuring plans; • revising business plans to reflect remedial actions; • increasing capital and/or liquidity; • reducing risk retention; • reducing or exiting lines of business; • ordering remedy actions; • improvements in capital composition; • undergoing special audit or actuarial review; • developing contingency or restructuring plans; • entering into an undertaking or voluntary compliance agreement; and • placing conditions or prohibitions on business authorization.

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<td>Stage 3
Future Financial Viability and Solvency in Serious Doubt</td>
<td>Risk Profile (High and Viability in Doubt)
The life 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 may have failed to remedy the issues identified in stage 2 or suffered a severe shock and its situation is worsening.

At stage 3, the insurer will be directed to immediately resolve issues or implement mandated improvements. FICOM expects immediate actions to reduce its stage rating.

Typical Supervisory Actions
In addition to activities in preceding stages, Stage 3 actions may include:

• corrective action order;
• request or order to produce records;
• winding down or merging;
• sale of assets;
• requesting financial assistance from Assuris;
• working with Assuris on remediation;
• restricting the insurer to servicing of existing policies; and
• FICOM preparing wind-up or liquidation plans.</td>
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<tr>
<td>Stage 4
Non-viability / Insolvency Imminent</td>
<td>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.

Typical Supervisory Actions
In addition to activities in preceding stages, Stage 4 actions may include:

• withdrawing business authorization;
• arranging for the transfer or continuation of existing contracts;
• placing the insurer into liquidation; and
• Assuris arranging the transfer of obligations and/or making payouts.</td>
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Financial Institutions Commission

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