

Regulatory Statement

Incorporating an Insurance Company and Obtaining a Business Authorization in British Columbia

Regulatory Statement Number	INS-18-007
Legislation:	<i>Financial Institutions Act</i> <i>Business Corporations Act</i>
Related Forms:	Application for Incorporation (Form 4) Application for Business Authorization (Form 8)
Date:	October 1, 2018
Distribution:	All Interested Applicants

PURPOSE

This Regulatory Statement (“Statement”) outlines the application process through which an applicant may obtain consent from the BC financial Services Authority (“Authority”) to form a company under the *Business Corporations Act* (“BCA”) for the purpose of obtaining authorization to carry on insurance business in British Columbia (“BC”).

BCFSA will generally evaluate a proposed incorporation and authorization against the criteria in this Statement; however, as applications are assessed and reviewed on a case-by-case basis, this Statement should not be viewed as outlining a definitive set of criteria and information requirements and further requests for information may be made to allow for proper review of an application.

This Statement includes:

- an overview of legislation;
- application process; and
- submission instructions.

BACKGROUND INFORMATION

Subject to certain exemptions, no person can carry on insurance business in BC unless authorized under the *Financial Institutions Act* (“FIA”). The consent of the Authority is required before a BC insurance company may be incorporated under the BCA specifically for the purpose of carrying on insurance business. It is strongly recommended that prospective applications contact BCFSA staff prior to submission of an application for consent to incorporation or for authorization to conduct insurance business.

Applicants are encouraged to review and conduct a self assessment against the guidelines which have been adopted from the Office of the Superintendent of Financial Institutions (“OSFI”). BCFSA understands that insurance companies will require a period of time to implement the guidelines’ standards and principles and expects the application of guidelines to vary based on an insurers’ size, scope, and complexity. A list of the current OSFI guidelines adopted by BCFSA is available on BCFSA’s website.¹

¹ [OSFI: Table of Guidelines](#)

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LEGISLATION

Pursuant to [Section 13](#) of the FIA, a person must not apply to the BC Registry Services (“Registry”) to incorporate a company for the purpose of carrying on insurance business unless it has first obtained consent for incorporation from the Authority.

A company incorporated under the BCA for the purpose of carrying on insurance business may be granted a business authorization under [Section 61](#) of the FIA. Pursuant to [Section 61\(1\)](#), an insurance company must apply for its authorization within one year of the date of its incorporation.

Pursuant to [Section 14](#) of the FIA, during the interim period between incorporation and authorization the company is only permitted to carry on those preliminary activities set out in its application for incorporation. Prior to receiving its Certificate of Business Authorization, the insurance company is not permitted to carry on insurance business (e.g. sell insurance products) in BC.

An insurance company must use a name that includes the word “insurance” or “assurance” together with a designation such as “company” or “corporation”, per [Section 12\(2\)](#) of the FIA.

REQUIREMENTS

The FIA outlines the two-step process for the authorization of a new insurance company:

1. The entity must apply for and receive consent to incorporate in the province; and
2. After incorporation, the entity must apply for and receive a Certificate of Business Authorization.

Step One: Consent for Incorporation

Applications for consent to incorporation must include the following materials:

- non-refundable [application fee](#) payable to BCFSa;
- completed [Application for Incorporation \(Form 4\)](#);
- proposed memorandum of incorporation and articles;
- notice of the company’s registered office and records office;
- names, addresses, and numbers of voting shares of each shareholder in the company;
- current organization chart with percentages owned and identifying the company’s ultimate parent (owner), if any, and all entities in the corporate group;
- completed [Personal Information Returns](#) (“PIR”) for each of the proposed directors, senior officers, and persons who will directly or indirectly own or control 10 per cent or more of the voting shares;
- membership of the following committees:
 - Audit Committee;
 - Investment and Lending Committee; and
 - Conduct Review Committee;
- draft copy of the written policies and procedures for each committee;
- draft copy of the investment policy;
- description of the company’s corporate governance policies and practices;
- description of the company’s marketing, distribution, and claims handling strategy;
- description of the company’s business continuity plan;
- draft copy of all insurance policies and endorsements;
- draft copy of all reinsurance agreements and an illustration or chart outlining the net retention level by policy or risk;
- draft copy of any management agreements;
- draft copy of any shareholders’ agreements;

- draft copy of any insurance agent or broker agreements;
- description of the company's risk appetite framework, including a detailed description of all risks to which the proposed insurance company would be exposed as well as the manner in which it would monitor and manage these risks, including the following specific risks:
 - market risk;
 - credit risk;
 - operational risk;
 - regulatory compliance risk; and
 - strategic risk.
- evidence that the shareholders will be capable of providing continuing financial support to the company (if a shareholder is a corporation, a copy of its financial statements for the last three years should be provided);
- evidence that the proposed insurance company will have sufficient capital to support the business plan, including details on initial and future sources of capital; and
- business plan that provides the following information:
 - reason(s) why the shareholders want to establish an insurance company;
 - analysis of target markets, opportunities, competitors, and threats;
 - reasons why the shareholders believe that the company will be successful and the overall strategy for achieving this success (including key assumptions);
 - overview of each line of business to be conducted by the company, including a description of the type of risks it wishes to insure and the classes of insurance it will require in order to do so;
 - details regarding the projected insurance policy limits by class of insurance;
 - pro forma financial statements – including balance sheet, income statement, and cash flow projections – for the first five years of operations; the pro forma income statement should include premium volumes on a gross and net basis, net retention per class of insurance, and a detailed description of all reinsurance arrangements;
 - explanation of how the company's initial capital base will meet the requirements provided under the FIA [Capital Requirements Regulation](#);
 - discussion of key assumptions used, including those underlying claims, valuation, pricing, underwriting, expenses, and persistency of policies. In addition, provide detailed capital calculations and calculation of financial ratios relevant to the proposed business. Premium volumes and sales targets should be supported by market studies in Canada and projected results should be compared to the peer group or industry as a whole. Major asset, liability, income, and expense categories should be identified, including start-up costs and any amount (plus description) of off-balance sheet activities;
 - details of actuarial assumptions used in the pro forma financial statements;
 - preliminary activities the proposed insurance company will carry on prior to receiving a business authorization;
 - projected staff complement and organization chart showing reporting lines for senior positions and key responsibilities in the company, and a description of the function the individuals will perform; and
 - estimated date of submission for the [Application for Business Authorization](#).

A letter will be issued to the applicant if the Authority provides consent to the incorporation. Applicants may then apply to the BC Corporate Registry to incorporate the insurance company.

Step Two: Obtaining a Business Authorization

An insurance company is not permitted to carry on insurance business in BC unless it has received a business authorization from BCFSA. The insurance company must apply for this authorization within one year of the date of its incorporation.

Applications to obtain a certificate of business authorization for a new BC insurance company must include the following materials:

- non-refundable [application fee](#) payable to BCFSA;
- completed Application for [Business Authorization form](#) (Form 8);
- finalized copies of all incorporating documents;
- explanation of any material changes made to the company's business plan;
- updated list of directors and senior officers (if there have been any changes since the application for consent to incorporation, then the new directors and senior officers must file PIRs);
- explanation of any material changes to the company's corporate governance policies and practices;
- updated list of membership for the following committees:
 - Audit Committee;
 - Investment and Lending Committee; and
 - Conduct Review Committee.
- finalized copy of the written policies and procedures of each committee;
- copy of the minutes of all Board of Directors meetings, including the meetings of its committees, since the incorporation date;
- evidence of membership in an approved insurance compensation plan, either the Property and Casualty Insurance Compensation Corporation ("PACICC") or Canadian Life and Health Insurance Compensation Corporation ("Assuris") as appropriate;
- audited financial statements, including a copy of the company's audited opening balance sheet;
- interim financial statements ending the month preceding the application;
- finalized copy of all insurance policies and endorsements;
- finalized copy of all reinsurance agreements and an updated illustration or chart outlining the net retention level by policy or risk;
- finalized copy of any management agreements;
- finalized copy of any shareholders' agreements;
- finalized copy of any insurance agent or broker agreements;
- Financial Condition Testing completed by an independent qualified actuary including scenario testing showing the results of variability in key assumptions on the base case business plan, the capital adequacy ratio for each year, and contingency plans to address adverse scenarios;
- explanation of any material changes to the company's computer systems;
- explanation of any material changes to the company's marketing, distribution, and claims handling strategy;
- explanation of any material changes to the company's business continuity plan;
- explanation of any material changes to the company's outsourcing arrangements between the company and its affiliates or third parties; and
- explanation of any material changes to the company's risk appetite framework.

Once the Superintendent is satisfied that all the requirements of the FIA and its regulations have been met, the Superintendent may issue the Certificate of Business Authorization.

The assessment of each application will depend on the specific facts and additional information may be requested as considered necessary by BCFSA staff. BCFSA staff are committed to communication with the applicant throughout the application process.

Applicants may be subject to an initial on-site review prior to receiving a Certificate of Business Authorization

INSTRUCTIONS

To make an enquiry or to request a meeting with BCFSa staff in respect of an application, please contact Statutory Approvals at statapprovals@bcfsa.ca or at (604) 398-5034.

All notices, information or documentation referenced in this Statement may be submitted via the [Integrated Regulatory Information System](#) ("IRIS"), a secure portal through which regulated entities may provide information to BCFSa. IRIS, as well as [instructions](#) on how to set up an account and submit an application through IRIS, may be accessed on BCFSa's website.

Application fees may be paid in IRIS by credit card (Visa or Mastercard). Payment by credit card through IRIS is an integrated part of a submission and will be remitted when the applicant submits the required application materials. Please contact statapprovals@bcfsa.ca for instructions on how to remit payment if you wish to pay an application fee by electronic fund transfer, wire, or cheque.

As the BC Financial Services Authority, we issue Regulatory Statements outlining how entities must operate, or the form and content required by the Regulator for mandatory regulatory filings identified in the Financial Institutions Act and Credit Union Incorporation Act, Regulations, and other pertinent legislation. While the comments in a particular part of a Regulatory Statements may relate to provisions of the law in force at the time they were made, these comments are not a substitute for the law. The reader should consider the comments in light of the relevant provisions of the law in force at the time, taking into account the effect of any relevant amendments to those provisions or relevant court decisions occurring after the date on which the comments were made. Subject to the above, instructions, definitions, and positions contained in a Regulatory Statements generally apply as of the date on which it was published, unless otherwise specified.