

BULLETIN NUMBER:	INS-18-007 (REPLACES INFORMATION BULLETIN INS-06-005)
TITLE:	INCORPORATING AN INSURANCE COMPANY AND OBTAINING A BUSINESS AUTHORIZATION IN BRITISH COLUMBIA
LEGISLATION:	<i>FINANCIAL INSTITUTIONS ACT, BUSINESS CORPORATIONS ACT</i>
DATE:	OCTOBER 2018
DISTRIBUTION:	ALL INTERESTED APPLICANTS

PURPOSE

This bulletin outlines the application process through which an applicant may obtain consent from the Financial Institutions Commission (the Commission) 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).

FICOM will generally evaluate a proposed incorporation and authorization against the criteria in this bulletin; however, as applications are assessed and reviewed on a case by case basis, this bulletin should not be viewed as a definitive set of criteria and information requirements. FICOM staff review and assess each application for the incorporation and authorization of an insurance company.

This bulletin includes:

- an overview of legislative provisions;
- application process; and
- timelines 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). FICOM is responsible for administering a number of provincial statutes, including the FIA. A BC insurance company is a company incorporated under the BCA for the purpose of carrying on insurance business. The

Commission's consent is required before the company can be incorporated with the BC Corporate Registry under the BCA.

As part of the process, FICOM staff assesses applications for consent on the incorporation and authorization of an insurance company and makes recommendations to the Commission, who has the ultimate responsibility to provide consent and issue the authorization to the insurance company.

It is recommended that applicants contact FICOM's Statutory Approvals department, either via email at StatApprovals@ficombc.ca or via telephone at 604 660-3408, prior to submitting an application.

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) when submitting an application for incorporation and authorization of a BC insurance company. FICOM 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 guidelines adopted from OSFI can be obtained on the FICOM website, or can be accessed through the following link:

http://www.fic.gov.bc.ca/pdf/insurance_bulletins/OSFIGuidelinesSummary.pdf.

LEGISLATIVE PROVISIONS

Pursuant to Section 13 of the FIA, a person must not apply to the Registrar to incorporate a company for the purpose of carrying on insurance business unless it has first obtained consent for incorporation from the Commission.

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.

APPLICATION PROCESS

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.

To streamline the process, the consent to incorporate and the business authorization may be combined into a single application.

Step 1: Consent for Incorporation

Applications for consent to incorporation must include the following materials:

- non-refundable application fee payable to the Minister of Finance¹;
- completed [Application for Incorporation form](#);
- 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 Return](#) (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;
- background information (i.e. curriculum vitae) on each of the proposed directors and senior officers;
- 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 explanation of the net retention level of various risks;

¹ Please refer to Schedule 1 of the FIA [Financial Institutions Fees Regulation](#) for further information on fees applicable to each transaction. Applications for consent to the incorporation of an insurance company in BC are under Section 13 of the FIA.

- 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 and opportunities that the company will pursue and plans to address them;
 - explanation of how the company's initial capital base will meet the requirements provided under the FIA [*Capital Requirements Regulation*](#);
 - analysis of competitors, showing threats and opportunities and the plans to address them;
 - 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 business it wishes to insure and the classes of insurance it will require;
 - 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;
 - 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;
- evidence that the proposed directors and senior management possess the financial and managerial capacity to properly carry on the business of an insurance company;
 - preliminary activities the proposed insurance company will carry on prior to receiving a business authorization;
 - details of actuarial assumptions used in the pro forma financial statements;
 - 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](#).

If the Commission consents to the incorporation, a letter will be issued to provide the consent. Applicants may then apply to the BC Corporate Registry to incorporate the insurance company.

Step 2: 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 FICOM. The insurance company must apply for this authorization within one year of the date of its incorporation.

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

- non-refundable application fee payable to the Minister of Finance²;
- completed [Application for Business Authorization form](#);
- finalized copies of all incorporating documents;
- 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;

² Please refer to Schedule 1 of the FIA [Financial Institutions Fees Regulation](#) for further information on fees applicable to each transaction. Applications to obtain an insurance business authorization in BC are under Section 61(1) of the FIA.

- 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 explanation of the net retention level of various risks;
- finalized copy of any management agreements;
- finalized copy of any shareholders' agreements;
- finalized copy of any insurance agent or broker agreements;
- explanation of any material changes made to the company's business plan;
- actuarial opinion on the reasonableness of the business plan, including scenario testing showing the results in key assumptions on the base case business plan, the MCT or LICAT test for each year, and contingency plans to address the worst case and other adverse scenario;
- 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;
- explanation of any material changes to the company's risk appetite framework; and
- any other information requested by FICOM staff.

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

The assessment of each application will depend on the specific facts and circumstances, and FICOM will communicate with the applicant throughout the application process.

Applicants should also note that in some circumstances they may be subject to an initial on-site review prior to receiving its Certificate of Business Authorization

TIMELINES AND SUBMISSION INSTRUCTIONS

All notices and materials referenced in this bulletin, as well as any enquiries, can be submitted via email to StatApprovals@ficombc.ca or by mail to the following address:

Financial Institutions Division
c/o Statutory Approvals
2800 – 555 West Hastings Street
Vancouver, BC V6B 4N6

FICOM staff will begin their review of an application upon receipt of the requested documentation in full. Please reference [Information Bulletin FI-18-00 –Timelines for Statutory Approvals Applications](#) for application timelines.

The timeline above serves as a general guideline, but may vary depending on the volume of requests received and the complexity of the individual application. FICOM staff will undertake to complete assessments as quickly as possible; however, the length of time spent reviewing an application will depend on the specifics of each application. An applicant can expedite the process by filing a complete application and providing all required supporting information at the outset of the application process.

Applicants should be aware that, in addition to the review conducted by staff, the application must be presented to and approved by the Commission and that this can impact the length of time required for an applicant to receive a decision.

At the Financial Institutions Commission, we issue information bulletins to provide technical interpretations and positions regarding certain provisions contained in the *Financial Institutions Act* and *Insurance Act*, Regulations and other pertinent legislation. While the comments in a particular part of an information bulletin 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, an interpretation or position contained in an information bulletin generally applies as of the date on which it was published, unless otherwise specified.