Guide to Intervention for Federally Regulated Life Insurance Companies

The Intervention Process

The objective of the intervention process is to enable OSFI to identify areas of concern at an early stage and intervene effectively so as to allow OSFI to minimize losses to policy holders and other creditors of federally-regulated life insurance companies (“companies”).

Assuris' mission is to mitigate the impact on Canadian policyholders of the financial failure of a life insurance company. Assuris works in partnership with regulators on any necessary interventions, seeking to both minimize long-term costs and preserve consumer perceptions of industry strength.

The *Insurance Companies Act of Canada* provides a wide range of discretionary intervention powers that allow OSFI to intervene to address concerns that may arise with companies. All assessments made throughout the intervention process consider the unique circumstances of the company including: nature, scope, complexity and risk profile.

The roles of OSFI and Assuris

OSFI has primary responsibility for regulating and supervising companies. In exercising this responsibility, OSFI conducts risk-based assessments of the safety and soundness of these companies. There are no regular supervisory interactions between Assuris and member companies.

Assuris’ role in the intervention process is to protect policyholders by minimizing loss of benefits and ensuring a quick transfer of their policies to a solvent company where their benefits will continue to be honoured. Assuris is funded by the life insurance industry and endorsed by the Government of Canada.

Assuris works in partnership with OSFI in the intervention process. Assuris performs independent financial analysis of its member companies and meets regularly with OSFI to discuss questions relating to their analysis. In addition, OSFI provides Assuris with information on companies that are of heightened concern to OSFI (ie. companies at stage 1 and above.)

Overview of the Guide to Intervention

The objective of the Guide to Intervention is to promote awareness and enhance transparency of the framework for intervening with federally-regulated life insurance companies. The Guide outlines the types of involvement that an insurance company can normally expect from OSFI by summarizing the circumstances under which certain intervention measures may be expected and describing the coordination mechanisms in place between OSFI and Assuris and other pertinent parties. The Guide may be updated in the future to reflect any changes to the intervention process or the roles/responsibilities of OSFI and Assuris in the intervention process.

Interpreting the Guide to Intervention

The intervention process is not a rigid regime under which every situation is necessarily addressed with a predetermined set of actions. Circumstances may vary significantly from case to case and the Guide should not be interpreted as limiting the scope of action that may be taken by OSFI in dealing with specific problems or companies. The Guide aims to communicate at which stage an action/intervention would typically occur. However, interventions described at one stage are also used at later stages and, in some situations, certain interventions may also take place at earlier stages than are set out in the Guide. Additionally, OSFI may choose to implement their powers at different times and/or stages in different circumstances.

No significant problems/Normal activities – If OSFI determines that the company's financial condition, policies and procedures are sufficient and that practices, conditions and circumstances do not indicate significant problems or control deficiencies, the company will not typically be staged.

When a company is not staged, OSFI has determined that the combination of the company's overall net risk, capital and earnings makes the company resilient to most normal adverse business and economic conditions. The company's performance has been satisfactory to good, with most key indicators comparable or in excess of industry norms. The company may have access to additional capital and is able to address supervisory concerns that might arise.

OSFI	Inter-Agency and Assuris Protocols	Assuris
OSFI's activities/responsibilities may involve: Assessing the financial condition and operating performance of the company. Reviewing information obtained from statutory filings, financial reporting requirements and management reporting to the board (including minutes of the board and board committee meetings). Conducting meetings with the company. Conducting regular risk-based supervisory reviews of the company. In some cases, OSFI officials attending board meetings of the company to review the on-site supervisory review results. Providing the company with the supervisory letter. Providing the chair of the audit committee	**Inter-agency activities/ responsibilities may involve:** OSFI informing Assuris of changes in the status of the company. OSFI and Assuris holding frequent regular meetings to discuss the company if Assuris has questions. OSFI and Assuris discussing any remedial measures that OSFI has requested the company to undertake.	**Assuris' activities/responsibilities may involve:** Assuris completing its analysis of information it obtains directly from companies. Assuris discussing the results of its analysis with OSFI. Assuris sharing any concerns and/or asking questions of OSFI.

with copies of supervisory letters. Providing composite risk ratings to the company. Requesting that the company's management provide a copy of the supervisory letter to external auditors. Advising the company of any corrective measures that the company will be requested to undertake. Monitoring any corrective measures which may include requesting additional information and/or conducting follow-up supervisory reviews. Reporting to the Minister of Finance on an annual basis.		

Stage 1 -- Early warning – If a company is categorized as Stage 1, OSFI has identified deficiencies in the company's financial condition, policies or procedures or the existence of other practices, conditions and circumstances that could lead to the development of problems described at Stage 2 if they are not promptly addressed..

The following conditions could lead to OSFI categorizing a company as Stage 1:

- the combination of the company's overall net risk and its capital and earnings compromises the company's resilience.
- the company has issues in its risk management or control deficiencies, although not serious enough to present a threat to financial viability or solvency that could deteriorate into more serious problems if not addressed.

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In addition, to its normal activities, at Stage 1, OSFI's activities/ responsibilities may involve: Formally notifying management, board of directors and external auditor of the company by way of a supervisory letter that the company is at Stage 1 and that the company is required to take measures to mitigate or rectify the identified deficiencies. Meeting with management, board of directors (or a committee of the board) and/or the external auditor of the company to outline concerns and discuss remedial actions. Sending a notice of the assessment surcharge to the company. Monitoring the company on an escalating	**Inter-agency activities/responsibilities may involve:** OSFI informing Assuris that it is staging the company, the reasons for the staging and any action that OSFI is planning to take. Assuris meeting with OSFI several times a year to discuss all Stage 1 companies and companies of concern to Assuris where specific concerns are highlighted and anticipated solutions discussed along with the relevant timeframes. The Superintendent meeting with the Assuris Board on an annual basis at minimum.	**In addition to its activities at the preceding stage, Assuris' activities/responsibilities may involve:** Analyzing in-depth all relevant public information and information obtained directly from the company or from OSFI.

basis by increasing the frequency of reporting requirements and/or expanding the level of detail of information that the company is required to submit. Conducting enhanced or more frequent supervisory reviews, or directing the company's internal specialists to conduct reviews that focus on particular areas of concern such as asset valuations or policy liability valuations. Entering into a prudential agreement with the company for the purposes of implementing any measure designed to maintain or improve the safety and soundness of the company. Requiring the company to increase its capital. Imposing business restrictions on the company in appropriate circumstances and/or issuing a direction of compliance in appropriate circumstances.		

Stage 2 -- Risk to financial viability or solvency – At Stage 2, the company poses material safety and soundness concerns and is vulnerable to adverse business and economic conditions. OSFI has identified problems that could deteriorate into a serious situation if not addressed promptly, although the problems are not serious enough to present an immediate threat to financial viability or solvency.

One or more of the following conditions would likely lead OSFI to classify a company as Stage 2:

- The combination of the company's overall net risk and its capital and earnings makes it vulnerable to adverse business and economic conditions, which may pose a serious threat to its financial viability or solvency unless effective corrective action is implemented.
- The company has issues in its risk management that, although not serious enough to present an immediate threat to financial viability or solvency, could deteriorate into more serious problems if not addressed promptly.

OSFI	Inter-Agency and Assuris Protocols	Assuris
In addition to its activities at the preceding stages, OSFI's activities/ responsibilities may involve: Enhanced monitoring of remedial measures through imposing more frequent reporting requirements. Conducting follow-up supervisory reviews more frequently and/or enlarging their scope. Requiring the company to incorporate in the business plan appropriate remedial measures aimed at rectifying problems within a specified time frame. Requiring the company's external auditor to enlarge the scope of the review of the financial statements and/or to perform other	**Inter-agency activities/ responsibilities may involve:** OSFI informing Assuris of results and data obtained from enhanced supervisory reviews, expanded audits and enhanced monitoring. OSFI commencing contingency planning in consultation with Assuris (although in unusual circumstances, this could occur at Stage 1).	**In addition to its activities at the preceding stages, Assuris' activities/responsibilities may involve:** Assuris requesting and analyzing information from OSFI including: • Business plan obtained from the company reflecting its remedial measures; • Reports and results of OSFI regulatory and special examinations; • Mandate, scope and results of work done by auditors; and • Mandate, scope and results of work completed by actuaries. Hiring consultants to provide in-depth

procedures and prepare a report thereon. Note - OSFI may assign the cost of the external auditor's work to the company. Requiring the company to conduct a special audit to be performed by an auditor other than the company's external auditor. Note - OSFI may assign the cost of the auditor's work to the company. Requiring the appointed actuary to provide policy liabilities calculated using alternate assumptions or methods. Requiring an external actuary to perform a special review of the company's actuarial reserves. Developing a contingency plan to enable OSFI to be ready to take control of the assets of the company or the company itself in case of rapid deterioration.		analysis of critical areas. Note - OSFI will treat these consultants in the same manner as senior Assuris management so long as appropriate confidentiality agreements are in place. Developing a preliminary restructuring plan.

Stage 3 -- Future financial viability in serious doubt – If a company is categorized as Stage 3, OSFI has identified that the company has failed to remedy the problems that were identified at Stage 2 and the situation is worsening. The company has severe safety and soundness concerns and is experiencing problems that pose a material threat to its future financial viability or solvency unless effective corrective measures are promptly undertaken. One or more of the following conditions are present:

- The combination of the company's overall net risk and its capital and earnings makes it vulnerable to adverse business and economic conditions, which poses a serious threat to its financial viability or solvency unless effective correction action is promptly undertaken.
- The company has serious issues in risk management or control deficiencies, which present a serious threat to its financial viability or solvency unless effective correction action is promptly undertaken.

OSFI	Inter-Agency and Assuris Protocols	Assuris
In addition to its activities at the preceding stages, OSFI's activities/responsibilities may involve: Directing external specialists or professionals to assess certain areas such as quality of assets, liquidity, sufficiency of reserves, sufficiency of policy liabilities, reliability of reinsurance arrangements, etc. Enhancing the scope of business restrictions that have already been imposed on the company and/or expanding the level of detail of information that the company is required to submit to OSFI. OSFI staff being present at the company to monitor the situation on an ongoing basis. Expanding contingency planning. Communicating to management and the	**Inter-agency activities/responsibilities may involve:** Assuris and OSFI conducting more in-depth and more frequent discussions regarding the company.	**In addition to its activities at the preceding stages, Assuris' activities/responsibilities may involve:** Declaring the company to be a "troubled member". Developing a detailed restructuring plan. Estimating its coverage exposure. Evaluating whether to make a financial commitment to support the restructuring plan depending on the circumstances in order to reduce its potential exposure. Formulating a detailed contingency plan for managing liquidation and funding its coverage commitments.

board of directors of the company the importance of considering resolution options such as restructuring the company or seeking out a prospective purchaser.		

Stage 4 – Non-viability/ insolvency imminent – If a company is categorized as Stage 4, OSFI has determined that it is experiencing severe financial difficulties and has deteriorated to such an extent that:

- the company has failed to meet regulatory capital and surplus requirements in conjunction with an inability to rectify the situation on an immediate basis;
- the statutory conditions for taking control have been met; and/or
- the company has failed to develop and implement an acceptable business plan, resulting in either of the two preceding circumstances becoming inevitable within a short period of time.

At Stage 4, OSFI has determined that the company will become non-viable on an imminent basis.

OSFI	Inter-Agency	Assuris
In addition to its activities at the preceding stages, OSFI activities/ responsibilities may involve: Assuming temporary control of the assets of the company and the assets under its administration (or in the case of a foreign company, of its assets in Canada together with its other assets held in Canada under control of its chief agent, including all amounts received or receivable in respect of its insurance business in Canada) if the statutory conditions for taking control of assets exist. Taking control of assets of the company and the assets under its administration (or in the	**Inter-agency activities/responsibilities may involve:** OSFI consulting with Assuris the steps to be taken that may involve: • taking temporary control; • arranging for interim management; • planning for the conclusion of the control period and proceeding to liquidation, and • identifying a liquidator and/or appointment of a standby agent. Assuris discussing with OSFI the implementation of the liquidation	**In addition to its activities at the preceding stages, Assuris' activities/responsibilities may involve:** Assuris obtaining board commitment to provide coverage in the event of liquidation. Proceeding with planning an assessment to raise funds required to meet coverage obligations in anticipation of the *Winding-up Order* being issued. Where appropriate, planning for an orderly commencement to liquidation with the assistance of the appointed liquidator, including:

case of a foreign company, of its assets in Canada together with its other assets held in Canada under the control of its chief agent, including all amounts received or receivable in respect of its insurance business in Canada) or taking control of the company if the statutory conditions for taking control exist, unless the Minister advises OSFI that it is not in the public interest to do so. Requesting that the Attorney General of Canada apply for a winding-up order in respect of the company where the assets of the company or the company itself is under the control of the Superintendent or the insurance business in Canada of the foreign company, where the assets in Canada of the foreign company are together with its other assets under the control of the Superintendent.	contingency plan prepared during Stage 3.	• preparing a closure manual designed to assist with issues and procedures arising immediately upon liquidation; • training information officers to handle public inquiries; • establishing funding and reporting arrangements during liquidation; and • developing strategies with the liquidator for operating the company in liquidation.

Glossary of Selected Terms

The glossary provides definitions of selected terms that are used in the *Guide to Intervention for Federally Regulated Life Insurance Companies*. The items described in the glossary contain information regarding the business or affairs of federally regulated insurance companies. Please note that all information regarding the business or affairs of companies that is obtained or produced by OSFI and/or Assuris shall be treated as confidential pursuant to legislation. Companies are also prohibited from disclosing these documents to the extent that they contain supervisory information as defined in the relevant regulations.

Closure Manual - The Closure Manual is the policies and procedures to be followed by the staff of the liquidator, and other parties under the direction of the liquidator, in the process of taking control and operating the company once the Court issues a Winding-up Order.

Composite Risk Ratings (CRR) – CRR is OSFI's overall assessment of a company's safety and soundness. There are four ratings for composite risk: 'low', 'moderate', 'above average' and 'high'. The determination of CRR is guided by a set of assessment criteria that were developed in consultation with the industry.

Direction of Compliance – A Direction of Compliance is a direction issued to a company, or a person with respect to a company, by the Superintendent where in the opinion of the Superintendent, the company or person is committing, or is about to commit, an act that is an unsafe or unsound practice in conducting the business of the company or is pursuing or is about to pursue any course of conduct that is an unsafe or unsound practice in conducting the business of the company. A Direction of Compliance may direct a company or person to: cease or refrain from committing an act or pursuing a course of conduct; and/or perform such acts as in the opinion of the Superintendent are necessary to reedy the situation.

Notice of Assessment Surcharge – A Notice of Assessment Surcharge is a notice in writing that is sent by the Superintendent to a company advising that an assessment surcharge has been issued to the company. The assessment surcharge is a surcharge that is assigned to a company that has been assigned a "stage" rating pursuant to the *Guide to Intervention for Federally Regulated Life Insurance Companies* or in accordance with the principles set out in the Guide. The amount of the assessment surcharge is determined by regulation.

Prudential Agreement – A prudential agreement is an agreement between the company and the Superintendent for the purpose of implementing any measure designed to maintain or improve the safety and soundness of the company.

Restructuring Plan - A restructuring plan is a description of the steps to be taken to recapitalize and transfer the company to new owners or to transfer the blocks of business to a solvent life insurance company

Risk Assessment Summary (RAS) – The RAS is an executive summary of essential supervisory information about a company. The RAS sets out the assessment of the risk profile of a company and presents a high-level overview of the company that provides the context for the assessment.

Supervisory Letter – A Supervisory Letter is a letter issued by OSFI to a company to report the findings and recommendations resulting from OSFI's supervisory work and to communicate its Composite Risk Rating (CRR) and intervention stage rating (if the is staged). A company is issued a supervisory letter at least once a year, and more often if there are changes in the company's CRR or intervention stage rating.

Troubled Member - Troubled Member is defined under the Assuris By-Law, as follows: "Troubled Member" means any Member that is an Insolvent Member, and any other Member as to which the Board has determined that there is a serious possibility that the Member may become an Insolvent Member.