Captive Insurance – Regulatory Perspective
The Financial Institutions Commission (FICOM) is an agency of the B.C. Ministry of Finance.

FICOM safeguards confidence and stability in British Columbia’s financial sector by protecting consumers from undue loss and unfair market conduct.

Administers 10 statutes that regulate financial institutions, pension plans, real estate and mortgage brokers.

Manages the deposit insurance program for credit unions through the Credit Union Deposit Insurance Corporation (CUDIC).
Key Regulatory Functions:

- Solvency
- Licensing
- Market Conduct

Risk-based and principles-based regulation

Funded by fees assessed from financial institutions and other regulated entities
Principles for Sound Supervision:

• Focus on material risk
• Forward-looking/early intervention
• Sound predictive judgment
• Understanding the drivers of risk
• Differentiate inherent risk and risk management
• Dynamic adjustment
• Assessment of whole institution
• Scaled to the size and complexity of the institution
Why Regulate Captives?

Captive insurers generally receive premiums from, and issue policies to, their parent(s) alone, however, there is potential for public harm from insolvency or poor market conduct:

- Public exposure through unrelated and third-party risks
- Potential failure of the parent entity
- Potential misuse of captive for illicit purposes
- Public confidence and reputational risk
- Market interactions with fronting insurers or reinsurers
International Association of Insurance Supervisors (IAIS)

- International standards-setting body responsible for developing and assisting in the implementation of principles, standards and other supporting material for the supervision of the insurance sector
- Member of the Financial Stability Board (FSB)
- Insurance Supervisors and Regulators from 200+ jurisdictions in 140 countries
- FICOM, OSFI, AMF members
International Developments

Insurance Core Principles

• Apply equally to captives and commercial insurers subject to the nature, scale and complexity of the insurer

• Application Paper on the Regulation and Supervision of Captive Insurers (draft issued May 2015)

• Key points:
  • Regulatory risk inherent in a captive can vary substantially
  • Suitability of board and management equally applicable even though owner and policyholder may be the same
  • Use of a risk-based approach to regularly monitor solvency and compliance, sound and prudent management, risk management
  • Additional guidance on protected cell captives and captive insurance managers
BC as a Captive Domicile

BC is the only jurisdiction in Canada with enabling legislation for captive insurance under the Insurance (Captive Company) Act

- Registration of pure, association or sophisticated captives
- Can carry on any class of insurance, except for surety insurance (reinsurance of surety permitted) or motor vehicle insurance (fleet permitted)
- Can insure only the risks of the parents except for:
  - Reinsurance of a commercial insurer for risks underwritten for the parent
  - Employee benefit insurance for current and former employees
  - Warranties on products produced or sold by the parent
- Capital requirements of $200,000 in equity and $100,000 in reserves
- No restrictions on investments or reinsurance but reviewed by FICOM
Key Facts:

• 20 captives registered in BC
• Approximately $81 Million in premium (mostly Canada-based risk)
• Size ranges from small local owners to multinational corporations
• Captives can provide a viable alternative for any size of business
• Important that parents/owners understand the purpose of using a captive, the associated risks and view as a regulated insurance entity
QUESTIONS?

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