

Summarized Balance Sheet					
	2015.2	2014.2	D%		
ASSETS				LIABILITIES	
Cash, Inv Inc & Asset for sale	5,613,308	5,796,185	-3.2	Payables	3,790,676
Investments				Unearned Prens	32,245,420
Fixed Income Assets	89,787,724	85,744,570	4.7	Unpaid Claims	76,890,558
Mort. Loans	1,036,377	915,812	13.2	Unearned Comm	992,625
Pref & Common Shares	13,572,579	13,134,665	3.3	Other	7,007,722
Other Investments	8,558,222	7,975,301	7.3	TOTAL LIABILITIES	121,053,507
Receivables				Def Taxes	126,506
Agents & Brokers	2,691,866	2,529,460	6.4	CAPITAL ELEMENTS	
PH and Instalment Prens	12,213,815	11,668,506	4.7	Share Capital Issued & Paid	14,132,765
Other Insurers, FA & PRR	1,373,503	1,430,093	-4.0	Contributed Surplus/HO Acct	15,412,164
Subs and Affil	660,594	637,712	3.6	Other Capital	6,966
Other Recevables	373,295	434,607	-14.1	Retained Earnings	14,494,080
Recoverables from Reins	22,518,608	19,793,362	13.8	Reserves	523,290
Int. in subs, affil & own use RE	784,182	708,311	10.7	AOCI (Loss)	1,981,535
Tax Asset	1,632,210	1,829,991	-10.8	TOTAL EQUITY	47,884,761
Others	8,121,988	7,580,852	7.1	Adjusted Equity	47,243,986
TOTAL ASSETS	168,938,271	160,179,427	5.5	TOTAL LIABILITIES & EQUITY	168,938,268
					160,179,427
					5.5
Summarized Income Statement				Key Ratios	
	2015.2	2014.2	D%		
Premiums Written				Net Loss Ratio	64.84
Direct	25,298,896	24,120,780	4.9	Expense Ratio	30.44
Assumed	4,455,934	4,739,866	-6.0	Combined Ratio	95.28
Ceded	6,799,551	6,125,393	11.0		
Net	22,955,279	22,735,253	1.0		
Net Premiums Earned	22,395,821	21,802,411	2.7	MCT or BAAT Ratio	264.21
Net Claims & Adj Expenses	14,521,263	14,881,854	-2.4		
Acquisition Expenses	4,895,759	4,786,031	2.3		
General Expenses & Other	1,921,100	1,789,797	7.3		
Total U/W Expenses	21,338,122	21,455,378	-0.5		
U/W Income	1,057,699	347,033	204.8		
Net Inv. Income	2,482,123	2,318,457	7.1		
Other Income	274,003	21,365	1182.5		
Net Inc. B. Tax & Ex. Items	3,813,825	2,686,855	41.9		
NET INCOME	3,105,929	2,196,599	41.4		
Other Comprehensive Income	-306,117	701,364			
Total Comprehensive Income	2,799,812	2,897,963	-3.4		

Regulatory Update

By Graham Segger, FCPA, FCA

There was a big push by Canadian property and casualty insurance companies in 2014/15 to implement a whole host of new regulatory procedures relating to Corporate Governance, Regulatory Compliance Management (RCM), Own Risk and Solvency Assessments (ORSA), Minimum Capital Tests (MCT) changes as well as new disaggregation of certain data requested on financial reporting forms. Add to this the ongoing privacy, market conduct; demutualization (in at least one case), IFRS accounting and pressures to document uncertain tax positions concerns. It is perhaps not surprising that several recent surveys which have asked about the top risks affecting federally registered financial institutions have cited changes to and the extent of the regulatory and compliance burden as a top risk in itself. Those respondents will be happy to know that the coming year will be a comparatively quiet period for such changes. Unfortunately, “comparatively quiet” does not equate with “quiet”. This article looks back at some of the recent changes, regulations in progress and what the future may hold.

Governance

Most Canadian insurance companies will have fully adapted by now to the 2013 updates to the Corporate Governance guideline. They will also be abiding by the May 2014 Advisory which requires that OSFI receive advance notification of proposed Board and Senior Management changes. There has been some active speculation about whether there are plans at the regulator to further expand the governance rules affecting the Chief Agents of foreign insurance companies operating in Canada, but nothing major has emerged on that front as of yet.

The Superintendent of Financial Institutions has added an interesting new flavour to the governance discussion by spending a significant amount of time in recent speeches discussing the “culture” at financial institutions. Assessing the “tone from the top” was always an important component of my evaluation of company risk back in my auditing days, and I am not at all surprised that OSFI is publicly talking about this.

Compliance

As of May 2015 Regulatory Compliance Management (“RCM”) as articulated in OSFI Revised Guideline E-13 officially replaced Legislative Compliance Management (“LCM”) as the umbrella expression for the set of key controls through which a Federally Registered Financial Institution (“FRFI”) manages regulatory compliance risk. The three lines of defense and the nine elements of the regulatory compliance framework should now be well embedded in most companies (see article in Q3 2014 MSA Quarterly Outlook Report for more detail).

During the past year companies have also had to implement Canada’s Anti-spam Legislation (CASL).

On the horizon for P&C companies may be new reforms to Market Conduct rules. There has been much written over the last couple of years about the huge market conduct fines and redress awards in the UK and elsewhere and the splitting of the UK Financial Services Authority (FSA) into two new agencies. Effective April 2013 the FSA was replaced by the “twin peaks” of the Financial Conduct Authority and the Prudential Regulatory Authority, with the latter overseen by the Bank of England.

Interestingly, in Canada we have always had a twin peaks approach as reflected by the provincial regulation of market conduct for FRFIs. The provinces currently operate under the umbrella of an October 2008 Canadian Council of Insurance Regulators (CCIR) report titled An Approach to Risk Based Market Conduct Regulation. The International Association of Insurance Supervisors have issued several papers in recent years addressing the need for enhanced protection of policyholders and market conduct monitoring by companies and regulators. While Canada has not had the same type of significant market conduct issues as some other international jurisdictions, the CCIR is currently revisiting their Market Conduct Supervisory Framework.

Capital

The Q1 2015 issue of the MSA Quarterly Outlook Report provided an analysis of the impact of the changes to the Minimum Capital Test introduced in 2015. The data derived from Q1 2015 reporting indicated that the changes were largely “capital neutral” as promised by the regulator. We will continue to see further impacts as the three year transitional relief incorporated into the new regulations are unwound over the next ten quarters.

Changes to the MCT for 2016 relate primarily to harmonizing the treatment of certain financial items with current accounting terminology and principles, and providing significant additional guidance for the treatment of limited partnerships, futures, forwards, swaps, short positions and hedges.

The Regulatory Capital and Internal Capital Targets Guideline A-4 released in 2014 is also now fully operational supporting the need for Own Risk and Solvency Assessments over the last year – see ORSA section below.

Own Risk and Solvency Assessment (ORSA):

Companies will have submitted their first ORSA reports to OSFI over the last six months. One of the frustrations many companies have expressed is their inability to assess how well those reports have been received by the regulators. Now that the first reports are in, one of the big challenges for companies will be ensuring that the management and board processes proposed are fully implemented. The documentation, risk assessment and stress and scenario testing obligations are significant.

Operational Risk Management:

A new and significant draft Guideline was issued by OSFI in August 2015. Draft Guideline E-21 – Operational Risk Management articulates the regulator’s expectations with respect to identification, assessment, documentation, quantification and management of operational risks. Comments on the draft are being solicited by OSFI. Branch operations of foreign insurers are excluded from the scope of the draft guideline for now. The draft guideline places operational risk management within the context of other supervisory guidance including the board approved risk appetite framework (Corporate Governance) and ORSA. It proposes a “three line of defense” accountability framework modeled on the Legislative Compliance Management principles.