Guidelines on reinsurance against risks undertaken by insurers incorporated and licensed in Ontario

Effective date for guidelines

These guidelines are effective immediately except where we have indicated specific times for their application.

Application of the guidelines

The guidelines

- are intended to ensure companies have a financial interest in the business they write and do not place excessive reliance on reinsurance, particularly with unregistered insurers;
- apply to companies incorporated in Ontario that are insuring risks of any class of insurance *other than* marine and life insurance;
- do *not* apply to a company that is licensed only to reinsure risks;
- recognize that Ontario farm mutuals are required to have their reinsurance arranged with the *Farm Mutual Reinsurance Plan*, and are therefore prohibited from reinsuring risks with unlicensed insurers.

Insurers' responsibility in reinsurance arrangements

In managing its reinsurance portfolio, every insurer should:

- make sure the arrangements provide adequate protection against the erosion of its capital and surplus;
- maintain a financial interest in the business being written.

New reinsurance guidelines

1. Subject to *guideline* #2 below, a company shall not reinsure itself in any year against more than 75 per cent of the risk it undertakes in its policies in Canada.

2.Where, for 1994, a company has reinsured itself against more than 75 per cent of the risk it had undertaken, that company will arrange to be reinsured

(a)up to a maximum of 85 per cent, but not more than the amount reinsured in 1994, of the risk it has undertaken not later than January 1, 1995, and

(b)up to a maximum of 75 per cent of the risk it has undertaken not later than January 1, 1996.

3.The percentage of the risk that a company undertakes in its policies in Canada against which it is reinsured in a year shall be calculated by multiplying 100 by the quotient obtained by dividing

(a)the premiums paid or payable by the company in that year for reinsurance of the risk the company has undertaken in its policies in Canada, without reduction in commissions, expense allowances and other considerations received or receivable by the company, *by*

(b)the gross premium income of the company in that year.

Premiums relating to the Facility Association's *Risk Sharing Pool* are considered direct premiums and will, therefore, not be considered as premiums paid for reinsurance.

4.A company shall not in any year be reinsured by unlicensed insurers against more than 25 per cent of the risk it has undertaken in its policies in Canada.

Where, for 1994, a company has reinsured itself with unlicensed insurers against more than 25 per cent of the risk it undertakes, that company will arrange to be reinsured with unlicensed insurers:

(a)up to a maximum of 30 per cent, but not more than the amount reinsured in 1994, of the risk it has undertaken not later than January 1, 1995, and

(b)up to a maximum of 25 per cent of the risk it has undertaken not later than January 1, 1996.

5.The percentage of risk a company undertakes in its policies in Canada against which it is reinsured by unlicensed insurers in a year shall be calculated by multiplying 100 by the quotient obtained by dividing

(a)the premiums paid or payable by the company in that year to unlicensed insurers for the reinsurance of the risk it has undertaken in its policies in Canada, without any reduction in commissions, expense allowances and other considerations received or receivable by the company, *by*

(b)the gross premium income of the company in that year.

6.The Superintendent of Insurance must give written approval *before* any reinsurance arrangements are made with any affiliated company. This affects all existing arrangements and related amendments. The expectation is that such reinsurance arrangements will include terms and conditions not less favourable than what is available in the open market.

Existing reinsurance guidelines

7.*Automobile Accident Benefits Reinsurance*

All companies engaged in writing automobile business in Ontario are expected to make adequate reinsurance arrangements to cover benefits payable

8.*Financial Reinsurance*

Existing guidelines on financial reinsurance are outlined in detail in

(a) *The Annual Statement Instructions: P&C-1* issued by the Canadian Council of Insurance Regulators, and

(b) *CICA Handbook, Volumes 1 and 2* issued by the Canadian Institute of Chartered Accountants.

9.*Fronting Arrangements*

Although a company's overall reinsurance arrangements may comply with Ontario's reinsurance guidelines, it is possible that it is ceding more than 75 per cent of the risk it has undertaken on individual programs. In these cases, insurers must provide such details for review to Commission examiners during their annual field examinations.

10.*Retention Ratio*

Companies are expected to follow prudent standards in ensuring their net retention per risk bears a reasonable relationship to their capital. The Commission considers two per cent a reasonable ratio.