



**CANADIAN
ASSOCIATION OF
INSURANCE
RECIPROCALLS**

C/O The MEARIE Group
3700 Steeles Ave. West,
Suite 1100
Vaughan, Ontario
L4L 8K8

T. 905.265.5300
F. 905.265.5301
CAIR-INSURANCE.COM

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BY EMAIL: fiareview@gov.bc.ca

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FIA & CUIA Review
Policy & Legislation Division
Ministry of Finance
PO Box 9470 Stn Prov Govt
Victoria BC V8W 9V8

**Re: Financial Institutions Act & Credit Union Incorporation Act
Review
Initial Public Consultation Paper (the "Consultation Paper")**

Dear Sirs/Madams:

The Canadian Association of Insurance Reciprocal (CAIR) is pleased to have this opportunity to comment on the Consultation Paper. Founded in 2010, CAIR advances three primary goals:

- Strengthening Canada's insurance reciprocals by sharing their combined wisdom, experience and innovation;
- Promoting well-informed and effective government regulation; and,
- Educating people about the advantages of reciprocal insurance.

CAIR's membership includes 18 reciprocal insurance exchanges, six of which are licensed in British Columbia. Our member reciprocals are dedicated to serving the specialized insurance needs of particular groups, including municipal governments, healthcare facilities, universities, school boards, airports, the legal profession, energy companies and the construction trades. Reciprocals are focused on stabilizing long-term insurance costs and ensuring access to coverages and services needed by their insureds. Reciprocals have sustained excellent financial performance, generated coverage innovations, and helped focus their insureds on risk management as an operational priority.

Our submission focuses on the regulatory framework applicable to reciprocals specifically and extra-provincial insurers generally, and on the protection of confidential information. The headings and page references below correspond to those used in the Consultation Paper.

Overall/Framework Issues

Issue 2: Public Disclosure of Key Financial Risk Information (Page 9)

CAIR views the exchange of information amongst Canadian regulators as supporting an efficient regulatory system and as therefore benefitting both regulators and regulated entities. However, ensuring that sensitive financial and risk information is protected from public disclosure is a significant concern for reciprocals.¹ CAIR believes that effective regulation of reciprocals is best fostered in an environment where information can be shared with regulators with the knowledge that it will be used only for the purposes of regulation, and will not be publicly disclosed.

Issue 5: Out of Province Business (Page 13)

CAIR understands the consumer protection impetus underlying BC's approach of regulating based on location of risk. CAIR members insuring risks located in BC are licensed in BC. CAIR does not support exemptions which allow unlicensed entities to provide insurance in BC. The better approach, in our view, is a level playing field, with all entities insuring risks in BC being required to be licensed in BC. As discussed below, streamlining BC's regulatory framework for out-of-province insurers (to the extent they are subject to a comparable regulatory regime in their home jurisdiction) would minimize any incremental burden associated with requiring these entities to be licensed.

Issue 6: Regulatory Powers and Guidelines

Regulation of Other Insurance Entities, including Reciprocal Exchanges (Page 17). The Consultation Paper indicates that the regulatory framework for some insurance entities (reciprocals among others) is not as fulsome as the framework applicable to insurance companies. CAIR believes this to be appropriate, due to the unique nature of reciprocals.² The regulatory burden on all insurers, including reciprocals, has been increasing in recent years. Some changes are appropriate but some, for example the application of solvency standards developed for incorporated insurers, are less so. CAIR believes that regulatory changes aimed

¹ Reciprocals are special purpose entities and have very focused insurance programs. Public disclosure of sensitive information could prejudice a reciprocal's competitive position or compromise its ability to manage certain claims.

² For example, a reciprocal is limited to insuring only its own members, not the public *per se*. Also, a reciprocal can, if needed, contractually "retroassess" (i.e. collect additional premiums from) its members.

at incorporated insurers must be reviewed in light of the unique nature of reciprocals and adapted if appropriate.

Solvency Regulation (Page 17). As noted in the Consultation Paper, extra-provincial insurers authorized in BC are subject to solvency oversight by both the incorporating jurisdiction³ and by BC, as a secondary regulator. Where the principal regulator has generally harmonized its solvency standards with OSFI's standards, CAIR believes that BC, as secondary regulator, should generally defer to the oversight and regulatory requirements of the principal regulator. We acknowledge that limited exceptions to this approach may be appropriate where BC risks present an unusual exposure.⁴

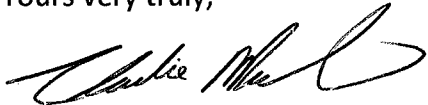
Insurance Sector

Issue 3: Protection of Confidential Information (Page 32)

As stated above, protection of confidential information which is provided to regulators to assist in their regulatory oversight function is an issue of great importance to reciprocals. To ensure that protection is adequate, CAIR supports the adoption in BC of the legislative approach taken in Alberta which insulates insurer information from freedom of information requests. We believe that this protection would enhance openness and cooperation, and would avoid adverse impact on the quality and timeliness of information disclosure to the regulator.

Thank you for the opportunity to provide comments on this issue of considerable importance to our members. We would be pleased to discuss this matter further if you would find that helpful.

Yours very truly,



C.C. (Charlie) Macaluso
Chair

³ In the case of reciprocals, which are not incorporated entities, the equivalent would be the jurisdiction in which their head office is located.

⁴ For example, CAIR accepts the appropriateness of specific BC filing requirements addressing earthquake coverage provided by insurers on risks located in BC.

