Supervisory Guide Applicable to Federally Regulated Life Insurance Companies

Revised March 1997 to Incorporate OSFI/CompCorp Co-operation and CompCorp Activities

- Stage - No problems /Normal Activities
- Stage 1 - Early Warning
- Stage 2 - Risk to Financial Viability or Solvency
- Stage 3 - Future Financial Viability in Serious Doubt
- Stage 4 - Company Not Viable/Insolvency Imminent

<table>
<tr><td colspan="3">Stage - <u>No problems /Normal Activities</u>

On-going supervisory and regulatory activities applying to all federally regulated Canadian and foreign life insurance companies (companies), pursuant to OSFI's mandate. In addition, OSFI conducts research and analyzes industry-wide issues and trends.</td></tr>
<tr><th>OSFI ACTIVITIES/INTERVENTION</th><th>OSFI/COMPCORP COOPERATION AND COMMUNICATION</th><th>COMPCORP ACTIVITIES/INTERVENTION</th></tr>
<tr><td>Incorporation of new Canadian companies and issuance of orders to carry on business to Canadian and foreign companies:
review and assess all relevant documents and information
make recommendations to Minister.</td><td>CompCorp Management will meet with OSFI at least quarterly to discuss all companies of concern to CompCorp.

Specific concerns will be highlighted and anticipated solutions discussed along with the relevant time frames.

The Superintendent will meet with the CompCorp Board at least annually.</td><td>CompCorp to complete its review of information obtained from its member companies.</td></tr>
<tr><td colspan="3">Review and assess wide range of applications and requests for regulatory consents required by statute including:
corporate reorganizations
changes in ownership
acquisitions of other financial institutions</td></tr>
</table>

- transfers of business
- changes in classes of insured risks
- withdrawals from the Canadian insurance market

Ongoing monitoring of companies based on information obtained from statutory filings, financial reports and other sources:

- assess financial condition and operating performance
- verify compliance with statutory and other regulatory requirements.

Periodic on-site examinations of companies as required by statute:

- inform management and board of directors of findings
- request that management provide copy of report to external auditors
- require that concerns be addressed by company
- monitor remedial measures if required.

OSFI informs Minister of status of companies.

Stage 1 - <u>Early Warning</u>

Deficiency in policies or procedures or the existence of other practices, conditions and circumstances that could lead to the development of problems described at Stage 2. Situation is such that it can be remedied before it deteriorates into a Stage 2 problem.

OSFI ACTIVITIES/INTERVENTION	**OSFI/COMPCORP COOPERATION AND COMMUNICATION**	**COMPCORP ACTIVITIES/INTERVENTION**
Company and/or Board notified of concerns and requested to take measures to rectify situation. Monitoring of remedial actions may involve requests for additional information and/or follow-up examinations. OSFI may require that company's external auditor enlarge scope of examination of company's financial statements or that external auditor perform other procedures, and prepare a report thereon. OSFI may assign cost of external auditor's work to	CompCorp Management will meet with OSFI at least quarterly to discuss all Stage 1 companies and companies of concern to CompCorp. Specific concerns will be highlighted and anticipated solutions discussed along with the relevant time frames. The Superintendent will meet with the	CompCorp to complete its review of information from its member companies.

<table>
<tr><td>company.

OSFI may require external review of company's actuarial methods and assumptions.</td><td>CompCorp Board at least annually.</td><td></td></tr>
<tr><td colspan="3">Stage 2 - <u>Risk to Financial Viability or Solvency</u>

Situations or problems that, although not serious enough to present an immediate threat to financial viability or solvency, could deteriorate into serious problems if not addressed promptly, as evidenced by:

Concerns over the company's ability to meet capital and surplus, or vesting requirements on an ongoing basis
Poor earnings, operating losses or deterioration in the profitability of the company's business
Concerns regarding appropriateness of actuarial reserves
Undue exposure to off-balance sheet risk
Low level of accessible liquidity or poor liquidity management in context of the company's situation
Less than satisfactory management quality or deficiency in management procedures or controls
Other concerns arising from:

financially weak or troubled owner
non-compliance with regulatory requirements
systemic issues such as risk concentration and exposure to major insurance catastrophes
rapid growth
credit rating downgrades
qualified report of external auditor or appointed actuary
increased risk exposure as identified by DST or business plan

</td></tr>
<tr><th>OSFI ACTIVITIES/INTERVENTION</th><th>OSFI/COMPCORP COOPERATION AND COMMUNICATION</th><th>COMPCORP ACTIVITIES/INTERVENTION</th></tr>
<tr><td>Senior OSFI officials meet with management, the appointed actuary, board of directors of company and external auditor of company to outline concerns and discuss remedial actions.

Company must provide an acceptable business plan to OSFI</td><td>Management of CompCorp will meet with OSFI on at least a quarterly basis to discuss, in depth, all Stage 2 companies.

OSFI will immediately notify CompCorp</td><td>CompCorp will analyze in-depth all relevant public information and information collected under its prudential criteria or other requests for information.

CompCorp, through the auspices of the committee, may request and may receive and analyze key</td></tr>
</table>

that reflects appropriate remedial measures that will rectify problems within a specified time frame. Monitoring of company is enhanced as to frequency of reporting requirements and/or the level of detail of information submitted. Progress of remedial measures is monitored via reporting requirements and/or follow-up examinations. Scope of on-site examination and/or frequency of on-site examinations may be enlarged or increased. The external auditor or another auditor or consulting firm nominated by OSFI may be required to perform a particular examination relating to the adequacy of the company's procedures for the safety of its policyholders, creditors, or any other examination that may be required in the public interest, and report thereon to OSFI. OSFI may assign cost of work of auditors or consultants to the company. The appointed actuary may be required to provide actuarial liabilities calculated using alternate assumptions or methods. External actuary may be required to perform a review of the appropriateness of the company's actuarial reserves. Superintendent may direct	when any company is moved into Stage 2. If recommended by the Superintendent, a Committee chaired by OSFI and comprised of representatives of OSFI and CompCorp, may be formed. The Committee would discuss information and activities with respect to a company and use best efforts to co-ordinate joint initiatives, if any, towards the company. A separate Committee would be established for each company. The Superintendent will inform management, the appointed actuary, the board of directors, and the external auditor of the company that a Committee (as described above) has been formed.	information from OSFI including: a) Business plan obtained from the company reflecting its remedial measures; b) Latest dynamic solvency test and actuarial reports; c) Reports and results of OSFI regulatory and special examinations; d) Mandate, scope and results of work done by auditors; e) Mandate, scope and results of work done by actuaries. CompCorp may hire consultants to provide in-depth analysis of critical areas. OSFI will treat these consultants in the same manner as senior CompCorp management so long as appropriate confidentiality agreements are in place.

company to modify its actuarial assumptions and methods. Business restrictions appropriate to circumstances may be imposed on company via undertakings provided by the company, restrictions on the company's order to carry on business or via direction of compliance covering such matters as: • payments of dividends or management fees • level of indebtedness • yield offered on annuity products • lending or investment powers • business acquisitions • level of premiums • other restrictions tailored to circumstances Company is placed on regulatory "watchlist"; management, the appointed actuary, board of directors and external auditor are formally notified. OSFI sends a "watchlist" progress report at least monthly to Minister; report is discussed in regular meetings with Minister. Status of company discussed with provincial insurance regulators and, where relevant, foreign regulators. Company may be discussed at Financial Institutions Supervisory Committee. OSFI commences contingency planning.		

<table>
<tr><td colspan="3">Stage 3 - <u>Future Financial Viability in Serious Doubt</u>

Situations or problems described at Stage 2 are at a level where they pose a material threat to future financial viability or solvency unless effective corrective measures are applied promptly.</td></tr>
<tr><th>OSFI ACTIVITIES/INTERVENTION</th><th>OSFI/COMPCORP COOPERATION AND COMMUNICATION</th><th>COMPCORP ACTIVITIES/INTERVENTION</th></tr>
<tr><td>Management, the appointed actuary, board of directors and external auditor of company are informed of problems.

Business plan must reflect appropriate remedial measures that will rectify problems within a set time frame so as to avoid triggering impaired viability or impaired solvency procedures (see Stage 4).

Monitoring of company may be further enhanced as to frequency of reporting requirements and/or the level of detail of information submitted so as to monitor progress of remedial measures.

Follow-up examinations may be carried out as required.

Enhanced examinations may be carried out focussing on particular areas of concern such as asset or loan security valuations or the determination of actuarial reserves. Such examinations may involve any of the following:
substantial increase in sampling of credit files
more in-depth reviews of files
engagement of specialists</td><td>A committee chaired by OSFI and comprised of representatives of OSFI and CompCorp will discuss information and activities with respect to a company and use best efforts to co-ordinate joint initiatives, if any, towards the company.

The Superintendent will inform management, the appointed actuary, the board of directors, and the external auditor of the company that a Committee (as described above) has been formed.</td><td>CompCorp will develop a restructuring plan.

Company personnel, through OSFI, will be asked to participate in the formation of that plan.

CompCorp will estimate its coverage exposure and, in order to reduce its potential exposure, CompCorp may make a financial commitment to support the restructuring plan.

CompCorp will formulate a detailed contingency plan for managing a liquidation, and funding its coverage commitments.</td></tr>
</table>

or professionals to assess certain areas such as quality of loan security, asset values, appropriateness of actuarial reserves, etc. Depending on situation, OSFI examination staff may be posted at company to monitor situation on an ongoing basis. A special audit may be required from an auditor or consultant other than the company's own external auditor if OSFI is of the opinion that it is required. OSFI may assign cost of work of auditors or consultants to company. A special review of the company's actuarial reserves may be required from an external or independent actuary to assess the adequacy of reserves under the circumstances. Superintendent may direct company to increase its capital or assets in Canada. Depending on circumstances, business restrictions may be enhanced or additional ones imposed on the company. Depending on circumstances, pressure may be exerted on management and board of directors to restructure company or to seek out an appropriate prospective purchaser. OSFI develops contingency plan for taking rapid control of the assets of the company if changes in circumstances so warrant.		

Stage 4 - Company Not Viable/Insolvency Imminent

Severe financial difficulties resulting in:

- failure or imminent failure to meet required capital and surplus requirements or vesting requirements in conjunction with inability to rectify the situation within a short period of time, or
- statutory conditions for taking control being met, or
- failure to develop and implement an acceptable business plan, thus making either of the two preceding circumstances inevitable within a short period of time.

OSFI ACTIVITIES/INTERVENTION	**OSFI/COMPCORP COOPERATION AND COMMUNICATION**	**COMPCORP ACTIVITIES/INTERVENTION**
Pressure to rectify situation is exerted on management and board of directors of company through frequent meetings with senior OSFI officials. OSFI notifies management and board of directors of company of intended regulatory intervention measures that will be taken unless situation is rectified quickly. New business restrictions may be imposed on company or existing restrictions may be expanded. OSFI formally notifies the board of CompCorp of the situation and of proposed regulatory intervention measures (Senior OSFI officials are likely to meet board of compensation fund to discuss situation). Other relevant regulatory agencies (provincial or foreign) are notified of proposed regulatory intervention measures to be	The committee formed at an earlier stag ,continues to monitor and prepares for liquidation. OSFI will discuss with CompCorp the steps to be followed: (a) taking control (assets or company), (b) arranging for interim management, (c) planning for the conclusion of the control period and proceeding to liquidation, and (d) identification of a liquidator and/or appointment of a standby agent. CompCorp will discuss with OSFI the implementation of the	CompCorp will obtain board commitment to provide coverage in the event of liquidation. In anticipation of the *Winding-up Order* being issued, CompCorp will proceed with planning an assessment to raise funds required to meet coverage obligations. Where appropriate, CompCorp, with the assistance of the identified liquidator, will plan for an orderly commencement to liquidation, including: • 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; • developing strategies with the liquidator for operating

applied to company. If statutory conditions for taking control of assets exist and if circumstances are such that there is an immediate threat to the safety of policyholders and creditors, OSFI may take control of the assets of the company for a short period. If statutory conditions exist, such as failure to comply with direction to increase capital or assets in Canada, and subject to representations made to the Superintendent, OSFI may maintain control of assets or take control of the company. Minister may overrule this decision on grounds of public interest only. If the company meets any of the conditions that would make it eligible to be wound up pursuant to the *Winding-up Act*, the company itself may voluntarily seek a winding-up order. Alternatively, OSFI may seek a winding-up order.	liquidation contingency plan prepared during Stage 3.	the company in liquidation.