



Capital Guideline for Captive Insurance Companies

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Introduction

Alberta is committed to the fair, efficient and prudent regulation of captive insurance companies licenced in Alberta (“captives”). To this end, the Superintendent of Insurance (“Superintendent”) issues this Guideline¹ to be transparent about the captive capital requirements. As the coverage provided by each captive is tailored to the distinct and individualized needs of its insureds, interested applicants should meet with the prudential team in the Superintendent’s Office to discuss their business plan, the [licencing process](#), and capital requirements.

Purpose

Pursuant to section 19 of the [Captive Insurance Companies Act](#) (“CICA”) and section 4 of the [Captive Insurance Companies Regulation](#) (“CICR”), a captive must maintain adequate capital and adequate and appropriate forms of liquidity.

Pursuant to sections 18(2) and 60 of CICA, the Superintendent issues this Guideline to set out the Superintendent’s expectations regarding captives’ base capital requirements.

Base capital requirements

Pursuant to section 1(1)(b) of the CICR, base capital is the capital a captive must maintain at all times based on its size, inherent riskiness of its financial assets, volume and nature of insurance business transacted.

Pursuant to section 19(3) of CICA, despite the capital requirements indicated by this Guideline, taking into account the nature of the captive’s business, the Superintendent may direct the captive to increase its capital to an amount higher than the base amount indicated by this Guideline.

The currency referenced in this document is in Canadian Dollars.

A. Pure captive

B. 1. Property and casualty (P&C)

The amount of base capital for pure captives² writing P&C classes of insurance is at least the greater of:

- i. \$250,000 as per section 3 of CICR, or
- ii. 20% of first \$5 million of Net Insurance Revenue³ plus 10% of amounts in excess of \$5 million, or
- iii. 15% of Liabilities for Incurred Claims net of any Assets for Incurred Claims.

2. Life or composite

The amount of base capital for pure captives writing Life or both Life and P&C classes of insurance is at least the greater of:

- i. \$250,000 as per section 3 of CICR, or
- ii. an amount determined with consideration to the captive’s risk, size, complexity, and structure. The captive’s actuary must propose a minimum capital level including analysis to support it.

¹ The Superintendent welcomes feedback on this Guideline and will update it as appropriate. Please send your feedback on this Guideline to tbfi.insurance-licens@gov.ab.ca

² As defined in Section 1 of the CICA.

³ Net Insurance Revenue = Insurance Revenue less Allocation for Reinsurance Premiums.

C. Association captive⁴

The amount of base capital for association captives² is at least the greater of:

- i. \$500,000 as per section 3 of CICR, or
- ii. 20% of first \$5 million of Net Insurance Revenue plus 10% of amounts in excess of \$5 million, or
- iii. 15% of Liabilities for Incurred Claims net of any Assets for Incurred Claims, or
- iv. an amount determined with consideration to the captive's risk, size, complexity and structure. The captive's actuary must propose a minimum capital level including analysis to support it.

D. Sophisticated insured captive³

The amount of base capital for sophisticated insured captives² is at least the greater of:

- i. \$500,000 as per section 3 of CICR, or
- ii. 20% of first \$5 million of Net Insurance Revenue plus 10% of amounts in excess of \$5 million, or
- iii. 15% of Liabilities for Incurred Claims net of any Assets for Incurred Claims, or
- iv. an amount determined with consideration to the captive's risk, size, complexity and structure. The captive's actuary must propose a minimum capital level including analysis to support it.

Importance of maintaining base capital

Pursuant to section 18(3) of CICA, if, at any time, a captive ceases to have adequate base capital as determined under CICA, CICR and this Guideline, the company must:

- (a) promptly report to the Superintendent in writing; and
- (b) cease to undertake or to offer to undertake insurance in Alberta until the Superintendent is satisfied that the captive's base capital is again sufficient.

Parents of captives must commit to immediately inject capital into the captive if capital falls below or is expected to fall below the captive's base capital amount. The commitment should be in written form and signed off by the Director of Finance or any other director authorized by the chief executive officer(s) of the parent company/companies.

Acceptable form of capital

Capital and surplus may be in the form of cash and cash equivalents, marketable securities, an irrevocable letter of credit, or a bond/surety issued by a Canadian financial institution.

Internal capital target⁵

For prudent capital management practices, an association and a sophisticated insured captive should conduct its own analysis and establish its internal capital target at a level above the base capital. The captive should work with its appointed actuary to determine the appropriateness of the captive's internal capital target. Captives are expected to maintain capital levels above the internal capital target. Should the capital level fall below the internal capital target, the captive should notify the Superintendent and provide a plan to replenish capital.

Credit for reinsurance

A captive must maintain sufficient collateral on Insurance Contract Liabilities ceded to unregistered reinsurers. The table below outlines the collateral requirements for the use of unregistered reinsurers based on the credit rating from the approved rating agencies. If there are different ratings from different agencies, we will consider the best rating for this purpose. For the purposes of this Guideline, registered reinsurers are insurers licensed federally or provincially in Canada to provide insurance and/or reinsurance.

⁴ The formulaic approach set out in (ii) and (iii) does not apply to life and composite captives.

⁵ Internal capital target requirement only applies to association and sophisticated insured captives.

No collateral is required for Insurance Contract Liabilities ceded to registered reinsurers.

Collateral Requirement	Reinsurer Credit Rating	Approved Rating Agencies
0%	AAA	AM Best DBRS Fitch Rating Services Japan Credit Rating Agency (JCR) Kroll Bond Rating Agency (KBRA) Moody's Investors Service Rating and Investment Information (R&I) Standard and Poor's (S&P)
15%	AA+ to AA-	
25%	A+ to A	
60%	A-	
85%	BBB+ to BBB-	
100%	Lower than BBB-	

The Superintendent may consider full credit for unregistered reinsurance if a reinsurer is included under the "[Covered Agreements](#)" amongst the United States, the United Kingdom and the European Union. The captive must demonstrate that the unregistered reinsurer would be included under the Covered Agreements.

Investment policy

The Superintendent requires that captives establish a written investment policy, which must be based on the approach that a reasonable and prudent person would apply to the investment portfolio of the captive. The investment policy must communicate the investment philosophy of the captive, describe the objectives for the investment and lending programs, and identify the roles of those involved in the investment process and what is expected of them.

The investment policy must address these elements:

- i. company's risk tolerance and long-term objectives;
- ii. categories of investment and loans;
- iii. diversification of investment portfolio;
- iv. asset mix and rate of return expectations;
- v. risk needed to achieve desired rate of return expectations;
- vi. portfolio rebalancing and monitoring procedures;
- vii. liquidity of investments; and
- viii. related party transactions, including loan to parent company

Captives are not required to file their investment policies on a regular basis; however, the policy must be filed with the captive's initial license application, if there is any material change thereafter, or upon the Superintendent's request.