

CAPTIVE INSURANCE EMERGING IN ALBERTA

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On October 27, 2021, the Alberta legislature introduced the <u>Captive Insurance Companies Act[1]</u> (the "**Act**"). If passed, the Act will expand insurance options for Alberta businesses; a positive development for those currently unable to find adequate insurance in the challenging insurance market.

A captive insurer is an alternative to the traditional insurance market. The defining characteristic of a captive insurer is that they are wholly owned by the entity they insure. For example, a parent company may create a captive insurer for the purpose of providing insurance to the parent company. Approximately 70 jurisdictions worldwide have some form of captive insurance scheme, although British Columbia is currently the only Canadian jurisdiction. Alberta's proposed legislation was developed with influence from British Columbia's legislation and other global schemes, as well as from best practices within the industry.[2]

Among other provisions, the Act outlines the formation and management of captive insurers and licensing requirements, which the Superintendent of Insurance will oversee. Under the Act, a captive insurer may be formed either as an incorporated body under the *Business Corporations Act* or as a limited partnership under the *Partnership Act*.[3] A captive insurance company may insure the risks of a single entity, members of an association, or of a knowledgeable client with complex insurance needs.[4] Accompanying regulations will further outline financial and corporate governance requirements, which are expected to be announced in 2022.[5]

Captive insurers can be used by businesses in any sector, though in Alberta the energy, agriculture, forestry, and manufacturing sectors are expected to especially benefit from this new option. The President of Treasury Board and Minister of Finance, Travis Toews, says that allowing captive insurance will benefit Alberta businesses by offering reasonable insurance pricing, attracting business, and sustaining jobs, [6] which is in line with the government's efforts to strengthen the financial services sector more broadly.

- [1] Bill 78, Captive Insurance Companies Act, 2nd Sess, 30th Leg, Alberta, 2021 (First Reading 27 October 2021).
- [2] Government of Alberta, "Captive insurance coming to Alberta", (27 October 2021).
- [3] Bill 78, supra note 1, s 2.
- [4] Government of Alberta, supra note 2.
- [5] Government of Alberta, supra note 2.



[6] Government of Alberta, *supra* note 2.

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A Cautionary Note

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