

February 2, 2015  
File No.: 78000-03-01  
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**To: All BC Insurers and Non-Federal Extra-Provincial Insurers Operating in BC**

**Re: Adoption of a Prudent Person Approach**

The purpose of this letter is to inform BC-incorporated insurers and non-federal extra-provincial insurers operating in BC that the Financial Institutions Commission (FICOM) has adopted the following guidelines issued by the Office of the Superintendent of Financial Institutions (OSFI) which outline a prudent person approach to investment and lending decisions:

No.	Subject	Life	P&C
B-1	Prudent Person Approach	X	X
B-2	Large Exposure Limits	X	
B-2	Investment Concentration Limit		X
B-4	Securities Lending	X	
B-4	Securities Lending		X
B-5	Asset Securitization	X	X
B-7	Derivatives Sound Practices	X	X
B-11	Pledging	X	X
B-20	Residential Mortgage Underwriting Practices and Procedures	X	X
E-2	Commercial Lending Criteria	X	

The prudent person guidelines are effective immediately and apply to BC-incorporated insurers and non-federal extra-provincial insurers operating in BC.<sup>1</sup> However, where the primary regulator of a non-federal extra-provincial insurer has already adopted a prudent person approach to investment and lending, FICOM will rely on such approach to the extent that it remains aligned with OSFI's framework as set out in the adopted guidelines.

In response to feedback received by stakeholders during the consultation, FICOM has decided to clarify its expectations regarding the 5% investment concentration limit described in OSFI *Guideline B-2* for P&C insurers. Investment concentration limits should be set by the Board in

<sup>1</sup> Section 136(2) of the *Financial Institutions Act* (FIA) requiring financial institutions to adhere to prudent investment and lending standards applies to non-federal extra-provincial insurers as well as BC insurers pursuant to section 158(3)(b) of the FIA.

accordance with the risk appetite of the insurer. However, FICOM will expect P&C insurers to adhere to the 5% concentration limit for securities and other investments (e.g. bonds) that would not qualify to be included as part of an institution's Tier 1 capital.

Note that the 5% concentration limit excludes loans and securities issued or guaranteed by the Government of Canada, a Canadian province, or an OECD central government. For term deposits, guaranteed investment certificates (GICs), and other assets that fall under a deposit guarantee scheme, FICOM will consider them excluded from the 5% concentration limit up to the amount guaranteed by the relevant government.

A table to clarify FICOM's requirements for references made in the OSFI guidelines has been enclosed as an appendix to this letter.

If you have any questions regarding FICOM's decision to adopt the prudent person approach, please contact Harry James, Director, Policy Initiatives, at [harry.james@ficombc.ca](mailto:harry.james@ficombc.ca). If you have any questions regarding implementation, please contact your FICOM Relationship Manager.

Yours truly,



Frank Chong  
Deputy Superintendent, Regulation

Enclosures

MOB/ac