

Guideline

Property and Casualty Large Insurance Exposures and Investment Concentration

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INTRODUCTION

This Guideline provides a BCFSa version of a guideline published by the Office of the Superintendent of Financial Instruments (“OSFI”) titled B-2 Property and Casualty Large Insurance Exposures and Investment Concentration. The BCFSa version follows OSFI’s closely, with appropriate adjustments to ensure it is suitable for the B.C. jurisdiction. The Guideline sets out expectations related to large insurance exposures; that is, losses a B.C. incorporated property and casualty insurance company (“P&C insurance company”) could suffer from a single large insurance exposure and the sudden failure of an individual unregistered insurance counterparty. It also sets out expectations related to investment concentration.

This Guideline complements BCFSa’s Supervisory Framework and Assessment Criteria. Excluding section headings, terms that are capitalized and bolded in this Guideline are defined in the Appendix.

Please refer to OSFI’s Corporate Governance Guideline for expectations of Boards of Directors regarding operational, business, risk, and crisis management policies.

LARGE INSURANCE EXPOSURES

Gross Underwriting Limit Policy

P&C insurance companies should have a comprehensive Gross Underwriting Limit Policy (“GUWP”)¹ that is consistent with their Risk Appetite Framework.²

The GUWP should:

- Define what constitutes a **Single Insurance Exposure** by class of insurance, as appropriate. A P&C insurance company could aggregate insurance exposures across multiple coverages and/or classes of insurance;
- Establish limits by class of insurance regarding the level of gross insurance risk that the P&C insurance company is willing to accept in respect of a maximum loss related to a Single Insurance Exposure; and
- Be reviewed by senior management at a minimum annually.

Single Insurance Exposure

BCFSA expects P&C insurers to develop and establish their own criteria and approach for determining and measuring the maximum loss on a Single Insurance Exposure using relevant, reasonable and supportable information. They should make such a determination without regard to the probability of the loss event occurring, and using forward-looking approaches (i.e., not solely based on past losses).

With respect to the certain classes of insurance set out below, P&C insurance companies should consider the following in determining a Single Insurance Exposure:

Property	The aggregated insurance exposures on in-force policies at a single location, including any exposures subject to the location.
Credit	The aggregated insurance exposures on in-force policies to any one single buyer or group of connected buyers.
Surety	The aggregated insurance exposures on in-force bonds to any one single contractor or group of connected contractors.
Title	The aggregated insurance exposures on in-force policies related to the legal title for a single location.

BCFSA expects P&C insurance companies to provide, on request, all information with respect to their large Single Insurance Exposures. BCFSA may, at its discretion, advise a P&C insurer to use specific criteria or an approach to determine and measure its maximum loss on a single insurance exposure.

Systems and Reporting

P&C insurance companies should have adequate systems to identify and actively manage insurance exposures. They should also have effective monitoring and internal reporting procedures to ensure ongoing operational compliance with the GUWP.

¹ The GUWP can be one consolidated document or a set of policy documents.

² The expectations for the Risk Appetite Framework are outlined in OSFI's Corporate Governance Guideline.

Insurance Exposure Limit

This section applies to the direct business of P&C insurers, including assumed business from an **Affiliated Company**, where that Affiliated Company is a P&C insurance company and is a direct writer of that business.

At no time should any P&C insurance company's **Net Retention**, plus its **Largest Net Counterparty Unregistered Reinsurance Exposure**, due to the occurrence of a maximum loss on a Single Insurance Exposure, exceed the following limits:

Insurance Companies

1. 100 per cent of **Total Capital Available** where any entity in the P&C insurance company's control chain is a:
 - a. widely held company³, and/or
 - b. regulated financial institution;
2. 25 per cent of Total Capital Available otherwise

With respect to the Net Counterparty Unregistered Reinsurance Exposure, P&C insurance companies should measure their ceded unregistered reinsurance exposures to a given counterparty, or group of Affiliated Company counterparties, on both a gross and a net basis. That is, it should be measured before and after the recognition of any eligible Counterparty Risk Mitigation ("CRM") technique. Only the aggregate net counterparty exposures for unregistered reinsurance are subject to the limits above.

Eligible CRM techniques may include, as applicable:

- Excess collateral;
- Letters of credit⁴; and
- Other CRM techniques deemed acceptable by BCFSA.⁵

INVESTMENT CONCENTRATION

P&C insurance companies should have policies with respect to the management of investment concentration, which include internal limits. The policies should be consistent with the P&C insurance company's Risk Appetite Framework.

A P&C insurance company's aggregate market value of **Investments** in any one **Entity** or group of Affiliated Companies should not exceed the following limit:

Insurance Companies

5 per cent of the company's **Assets**

P&C insurance companies should consider other Investments or commitments not shown on the balance sheet; for example, options, futures, forward contracts, and unfunded portions of committed loans.

GUIDELINE ADMINISTRATION

Where a P&C insurance company is in non-compliance of this Guideline, BCFSA may, on a case-by-case basis, take or require the P&C insurance company to take corrective measures. BCFSA measures may include, but would not be limited to, heightened supervisory activity and/or the discretionary authority to

³ With shares that are publicly traded on a recognized stock exchange.

⁴ The limit on the use of letters of credit for unregistered reinsurance with a given counterparty, or group of Affiliated Company counterparties, including any letters of credit that are part of excess collateral, is 30 per cent and is measured against the value of the insurance exposure.

⁵ A P&C insurance company may reduce its expected Net Counterparty Unregistered Reinsurance Exposure if the CRM techniques meet the requirements of OSFI's Guideline A – Minimum Capital Test and Guideline B-3 – Sound Reinsurance Practices and Procedures.

adjust the P&C insurance company's capital requirements commensurate with the risks being undertaken by that company.

APPENDIX: DEFINITIONS

Single Insurance Exposure

Every insurance contract is unique, both in its underlying insurance risks and its coverage. As such, P&C insurance companies can define what constitutes a Single Insurance Exposure with their GUWP since they have the requisite knowledge and expertise. However, BCFSa may, at its discretion, advise a P&C insurance company to use specific criteria or an approach to determine a Single Insurance Exposure.

Affiliated Company

One entity is affiliated with another entity if one of them is controlled by the other or both are controlled by the same person or entity.

Net Retention

The amount of insurance exposure which a P&C insurance company retains net for its own account and does not pass on to another insurer (or reinsurer).⁶ Any reinstatement premiums should be included in the Net Retention value.

Largest Net Counterparty Unregistered Reinsurance Exposure

The largest amount of ceded unregistered reinsurance on an insurance exposure provided by a (re)insurance group; e.g., Affiliated Company counterparties that are part of a (re)insurance group. This amount should be on a net basis; that is, after recognition of any eligible CRM technique.

Total Capital Available

For a P&C insurance company, the consolidated total available capital of a company as defined for the purpose of calculating the Minimum Capital Test ("MCT") / Mortgage Insurer Capital Adequacy Test ("MICAT").

Investments

An asset or item acquired with the goal of generating income or appreciation, excluding loans to, and loans guaranteed or securities issued or guaranteed by the Government of Canada, a Canadian province, or a member jurisdiction of the Organisation for Economic Co-operation and Development.

Entity

A natural person, a body corporate, trust, partnership, fund, unincorporated association or organization, an agency of the Crown in right of Canada or of a province, and any agency of a foreign government.

Assets

For a P&C insurance company, the total value of assets reported on the balance sheet of the regulatory return filed with BCFSa.

⁶ A P&C insurance company may reduce its required capital for ceded reinsurance if it meets the expectations in the Sound Reinsurance Practices and Procedures Guideline.