Letter

Title	Update on Capital Requirements for Federally Regulated Property and Casualty Insurers – Letter
Category	Capital Adequacy Requirements
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Sector	Property and Casualty Companies

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Today, we are reducing capital requirements for domestic infrastructure debt. These measures take effect immediately and will remain in place until further notice. Additional details are provided in the appendices.

This revision to capital requirements applies to Canadian property and casualty insurance companies that are not mortgage insurance companies, and foreign property and casualty companies operating in Canada on a branch basis, collectively referred to as property and casualty insurers.

We will continue to monitor the broader environment to ensure our capital framework remains fit-for-purpose and adjust as needed.

Should you have any questions, please contact our mailbox MCT-TCM@osfi-bsif.gc.ca.

Sincerely,

Jacqueline Friedland,

Executive Director, Risk Assessment and Intervention Hub

Appendix 1 – Capital reductions

Domestic infrastructure investments by property and casualty insurers may benefit from the following reductions in credit risk factors:

- for unrated long-term infrastructure debt (MCT section 6.1.2.1):
    - from 6% to 3% for remaining terms to maturity of 1 year or less
    - from 8% to 4% for remaining terms to maturity greater than 1 year up to and including 5 years
    - from 10% to 5% for remaining terms to maturity greater than 5 years
- for unrated short-term infrastructure debt (MCT section 6.1.2.2), from 6% to 3% for remaining terms to maturity of 1 year or less

The credit risk factors for all other unrated debts remain unchanged.

For regulatory reporting purposes, reflect the reduced capital requirements for unrated domestic infrastructure debt as part of schedule 60.00, line 035, column 26 and schedule 60.00, line 070, column 26, as applicable, in the quarterly regulatory PC4 returns.

Therefore, lines 035 and 070 of schedule 60.00, column 26 should combine:

1. unrated debt for domestic infrastructure which meets the definition of domestic infrastructure and thus is eligible for the preferential capital treatment; and
2. all other unrated debt not meeting the definition of domestic infrastructure.

Appendix 2 – Definitions

For domestic infrastructure in unrated short-term and long-term obligations to benefit from the preferential credit risk factors noted above, the infrastructure entity[1] and infrastructure asset[2] must meet certain criteria.

1. Infrastructure entity

For capital purposes, an infrastructure entity's sole purpose is either to invest in eligible infrastructure assets or to carry out only the activities specifically allowed for such entities in section 1(c) below. The terms and conditions that apply to an infrastructure entity include the following:

1. an infrastructure entity, or each of the infrastructure assets that is the subject of its activities, must involve a public body[3]. An infrastructure entity involves a public body if:
    1. the public body holds control of or has a substantial investment[4] in the infrastructure entity; or
    2. the aggregate value of the outstanding principal of the loans held by the public body and made to the infrastructure entity is greater than 10% of the value of the total liabilities of the infrastructure entity;
2. an insurer may only invest in an infrastructure entity that operates an infrastructure asset if that infrastructure asset is wholly owned by one or more of the following entities:
    1. the infrastructure entity;
    2. another infrastructure entity that the insurer, or any of its subsidiaries that is a property and casualty insurer, holds control of or has a substantial investment in; or
    3. an entity that is not affiliated[5] with the insurer and in which the insurer does not have a substantial investment; and
3. an infrastructure entity's activities are limited to:
    1. operating an infrastructure asset;
    2. holding or acquiring shares of or other ownership interests in another infrastructure entity;
    3. holding, managing, or otherwise dealing with immovables or real property connected to an infrastructure asset; and
    4. designing an infrastructure asset or acting as a general contractor for the construction or maintenance of an infrastructure asset provided the infrastructure asset is wholly owned by one or more of the following entities:
        1. the infrastructure entity; or
        2. another infrastructure entity that the insurer, or any of its subsidiaries that is a property and casualty insurer, holds control of or has a substantial investment in.

2. Infrastructure asset

An infrastructure asset is a physical asset as set out in the schedule 2 of the Investments in Permitted Infrastructure Entities Regulations. For capital purposes, the terms and conditions of an infrastructure asset also include:

1. it must be operated by an infrastructure entity;
2. it must be in Canada;
3. it must involve a public body in Canada that fulfills at least one of the following conditions in respect of the infrastructure asset:
    1. it owns at least 10% of the infrastructure asset,
    2. it is the purchaser of all or substantially all the product or service of the infrastructure asset,
    3. it is the lessor of all or substantially all the infrastructure asset,
    4. it is the guarantor of all or substantially all the revenues resulting from the operation of the infrastructure asset,
    5. it approves or sets the price that users pay for the product or service of the infrastructure asset, or
    6. it determines the rights regarding access to or use of the infrastructure asset; and
4. when it is being designed or is under construction, it involves a public body if a contract sets out that, once its construction is complete, the conditions referred to in paragraphs (a) through (c) above will be satisfied.

Footnotes

1 Entity is defined in 2(1) of the *Insurance Companies Act* (Act) and infrastructure entity means an entity that, in accordance with these prescribed conditions, only makes investments in infrastructure assets or engages in any other activity prescribed in 1(c) in this document.

2 Infrastructure asset is defined in 2(1) of the Act and its Regulation.

3 Public body is defined in 1(1) of the Regulation.

4 Substantial investment is defined in 10(1) of the Act.

5 Affiliate is defined in 6 of the Act.