



# Guideline

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Title	Investment Concentration Limit for Property and Casualty Insurance Companies
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This guideline addresses the issue of investments in an entity or group of related entities by property and casualty (P&C) insurance companies and sets out the Office's policy with respect to limits on these investments. This guideline applies to all federally regulated P&C insurance companies.



The Office is concerned about the concentration of investments in an entity or a group of related entities in considering the diversification needs of a prudent portfolio policy.

The Office believes that large exposures need to be subject to limits, notwithstanding the quality of individual investments.

## Investment Concentration Limit

All property and casualty insurance companies must set out in writing, as part of their overall prudent portfolio investment policy, internal policies on investment concentration. P&C insurance companies must also have in place management information and control systems necessary to give effect to their written policies.

Notwithstanding the limit addressed in this guideline, it is expected that companies will establish lower limits and their investments will approach the guideline limit on an exceptional basis.

### Canadian Company

The aggregate book value of investments by a Canadian P&C insurance company in any *entity* or group of *related entities* shall not exceed 5 per cent of the company's *assets*.

Investments include investments made by all subsidiary companies (see example in Appendix).

### Canadian Branch of a Foreign Company

The aggregate book value of investments of a foreign company in any *entity* or group of *related entities* vested in trust shall not exceed 5 per cent of the company's *assets in Canada*.

### Excess Investments

A company with excess investments in an entity or in a group of related entities must reduce its exposure below the 5 per cent limit. Meanwhile, the amount of investments in excess of the 5 per cent limit will be deducted from the total assets in calculating the company's Assets Adequacy Test.



## Definitions

### Assets

For a Canadian company, the total book value of assets reported on the balance sheet of the regulatory return (P&C-1).

### Assets in Canada

For a foreign company, the total book value of assets under the control of the Minister (vested in trust in Canada) as reported on the balance sheet of the regulatory return (P&C-2).

### Investments

An investment within the normal meaning of the term as used by P&C insurance companies. P&C companies should also take into consideration other forms of exposure to an entity or group of related entities even in cases where an investment or commitment is not shown on the balance sheet; for example, options, futures, forward contracts and unfunded portions of committed loans.

An investment excludes loans to, and loans guaranteed or securities issued or guaranteed by the Government of Canada, a Canadian province or an OECD central government.

### Entity

As defined in the *Insurance Companies Act*, 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.

### Related Entity

An entity is related to another entity in those circumstances in which a person would be related to a company pursuant to subsection 518(1) of the Act.



## Appendix - Example

### Investment Concentration Limit

Assumption:	
Assets of P&C Co. \$100,000	\$100,000
P&C Co's investment in "A"	3,000
P&C Co's % ownership of Sub VW	100%
Sub VW's investment in "A"	1,000
P&C Co's ownership of Sub YZ	51%
Sub YZ's investment in "A"	2,500
P&C Co's investment in "B" Assume "B" is related to "A"	500
P&C Co's investment in "C" "C" is 60% owned by "B"	200
Limit:	
5% of P&C Co's assets	5,000
Calculation of concentration in "A":	
P&C Co.	3,000
Sub VW (100% x \$1,000)	1,000
Sub YZ (100% x \$2,500)	2,500
P&C Co's investment in B	500
P&C Co's investment in C	<b>200</b>
Total investments	7,200
Limit (5% x \$100,000)	<b>5,000</b>
Investments in excess of guideline	<b>2,200</b>

