Financial Institutions Commission
BRITISH COLUMBIA
The Best Place on Earth

INFORMATION
BULLETIN

BULLETIN NUMBER:	**INS-10-005**
TITLE:	**INTEREST RATE RISK**
LEGISLATION:	***FINANCIAL INSTITUTIONS ACT***
DATE:	**MAY 2010**
DISTRIBUTION:	**BRITISH COLUMBIA PROVINCIALLY REGULATED INSURANCE COMPANIES**

Purpose

The purpose of this bulletin is to remind British Columbia provincially regulated insurance companies of potential interest rate risks in the existing volatile financial markets and its impact to their investment assets.

The Financial Institutions Commission ("FICOM") believes that the uncertainty that exists in world financial markets may result in increased interest rate risks. Property and Casualty ("P&C") and Life insurers should be attentive to their exposure to interest rate risks, and particularly, its impact to their assets and liabilities.

This bulletin outlines FICOM's minimum expectations on the British Columbia provincial insurer's management of interest rate risks. FICOM intends to release further information on other related market risks in the future.

Definition

For the purposes of this bulletin, FICOM defines interest rate risk as the risk of economic loss resulting from market changes in interest rates and their impact on interest sensitive assets and liabilities.

Recognition of Interest Rate Risk

In general, insurers should recognize their exposures to interest rate risks, as well as the impacts to earnings, capital, and the general environment in which they operate. The affect of any increases or continued low rates may be significant depending on the insurers Minimum Capital Test/Minimum Continuing Capital and Surplus Requirement.

Specifically, insurers are advised to review the potential impact to investment assets from interest rate risk. For example, P&C insurers may be exposed to interest rate risk from interest rate fluctuations and the potential decline in asset values (e.g. fixed income securities) forcing regulatory capital to be destabilized. For Life insurers, the possible continuance of the historically low interest rate environment may generate interest rate risk depending on the life insurance product sold, the term length, and policy conditions.

FICOM recommends that insurers:

1. Consider including interest rate risk as a plausible adverse scenario to their next Dynamic Capital Adequacy Test with an interest rate shock of no less than 300 basis points;

2. Review their exposure due to interest rate sensitive products;

3. Determine their acceptable level or range of interest rate risk sensitivity; and

4. Review their internal policies or procedures, to ensure that there is sound investment and risk management practices[1] in place to manage interest rate risk.

If there are any questions about this bulletin, please contact the Insurance Department staff.

[1] Refer to applicable sections of the federal Office of the Superintendent of Financial Institutions' B-12 Guideline, Interest Rate Risk Management