
BULLETIN NUMBER:	INS-10-005
TITLE:	INTEREST RATE RISK
LEGISLATION:	<i>FINANCIAL INSTITUTIONS ACT</i>
DATE:	MAY 2010
DISTRIBUTION:	BRITISH COLUMBIA PROVINCIALY 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 practices¹ in place to manage interest rate risk.

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

Staff of the Financial Institutions Commission periodically issue information bulletins to provide technical interpretations and positions regarding certain provisions contained in the *Financial Institutions Act* and Regulations. While the comments in a particular part of an information bulletin may relate to provisions of the law in force at the time they were made, these comments are not a substitute for the law. The reader should consider the comments in light of the relevant provisions of the law in force at the time, taking into account the effect of any relevant amendments to those provisions or relevant court decisions occurring after the date on which the comments were made. Subject to the above, an interpretation or position contained in an information bulletin generally applies as of the date on which it was published, unless otherwise specified.

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