
BULLETIN NUMBER: INS-13-001
TITLE: OSFI GUIDELINE B-9 ADOPTION
DATE: MARCH 2013
DISTRIBUTION: PROPERTY AND CASUALTY INSURERS
(P&C) WITH EARTHQUAKE EXPOSURE

PURPOSE

To inform Property & Casualty (P&C) insurers authorized in British Columbia that the Financial Institutions Commission (FICOM) has adopted the revised Guideline B-9: *Earthquake Exposure Sound Practices*, issued by the federal Office of the Superintendent of Financial Institutions (OSFI). This guideline takes effect immediately and applies to all P&C insurers authorized in the province that have exposure to earthquake risk.

BACKGROUND

On February 28, 2013, OSFI issued its revised Guideline B-9. This is an important update that reflects current industry best practices and sets out new information requirements to provide boards and senior management of insurers as well as regulators with better information to assess earthquake risk.

Since the draft version of this guideline was released for consultation last fall, FICOM has been working with OSFI, the Autorité des marchés financiers (AMF) and industry stakeholders to finalize the guideline taking into consideration feedback received. A key change made since the draft is the removal of the capital formula. FICOM, OSFI and AMF intend to continue to work with industry on developing the methodology to calculate earthquake exposure. Once the capital formula is finalized, it will be incorporated into a revised Minimum Capital Test (MCT) Guideline. In the interim, insurers can continue to use their current methodology for calculating earthquake risk.

Under B-9, insurers with earthquake risk are required to complete a one-time self-assessment to evaluate existing practices against to those in the guideline by September 30, 2013.

For BC incorporated and non-federally regulated insurers, FICOM will be sending a self-assessment form to complete in the coming weeks. This form must be completed and returned to FICOM by no later than September 30, 2013. If during the self-assessment insurers identify a

potential gap, insurers are expected to develop an appropriate action plan. The action plan should be developed by September 30, 2013 for board approval by no later than January 1, 2014.

Insurers that receive this self-assessment form that do not have any earthquake risk in British Columbia are asked to return it noting it is not applicable.

For federally regulated insurers with earthquake risk in British Columbia, the self-assessment is to be filed and submitted to OSFI as set out in its guidance. While FICOM does not require a copy of the self-assessment, FICOM encourages federally regulated insurers to notify this office by September 30, 2013 that it has been completed and whether or not any gaps were identified.

Boards are expected to review and discuss the self-assessment (and action plan) in conjunction with the company's earthquake exposure risk management policy. All P&C insurers, including those that are federally regulated, are to submit the board approved risk management policy (and approved action plan) by January 1, 2014.

All submissions are to be filed with FICOM via Insurance@ficombc.ca.

ADDITIONAL FILING REQUIREMENTS RELATED TO GUIDELINE B-9

- **BC Incorporated P&C Insurers**

BC incorporated insurers are now expected to include earthquake event stress testing in its Dynamic Capital Adequacy Testing (DCAT). For more information about FICOM's expectations regarding DCATs, please refer to FICOM Information Bulletin [11-INS-004](#).

In addition, FICOM requires BC incorporated insurers to submit Earthquake (EQ) Returns & Reports which are filed via Insurance@ficombc.ca by April 15 of each year. Refer to FICOM's Information Bulletin [11-002-INS](#) for more information.

- **Non-Federally Regulated Extraprovincial P&C Insurers**

While it is not a requirement for non-federally regulated extraprovincial insurers to submit a DCAT, FICOM strongly encourages insurers to use DCATs and include earthquake stress testing as a best practice for overall risk management.

FICOM does require non-federally regulated extraprovincial insurers to submit EQ Returns & Reports which are filed via Insurance@ficombc.ca by April 15 of each year. Refer to FICOM's Information Bulletin [11-002-INS](#) for more information.

- **Federally Regulated Extraprovincial P&C Insurers**

FICOM does not require federally regulated insurers to file their DCAT with this office. However, FICOM does require federally regulated insurers to complete and file an EQ Returns and Reports with OSFI by April 15 of each year.

MORE INFORMATION

For more information on the guideline, you can find OSFI's Guideline Impact Analysis Statement, Covering Letter and Media Release on [OSFI's website](#).

Questions can be addressed to your FICOM Relationship Manager or Frank Chong, Executive Director, Supervisory Support and Policy at Frank.Chong@ficombc.ca.

At the Financial Institutions Commission, we issue information bulletins to provide technical interpretations and positions regarding certain provisions contained in the *Financial Institutions Act and Insurance Act*, Regulations and other pertinent legislation. 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.