Notice – Additional measures related to capital and prudential standards for Québec-chartered insurers - COVID-19

On March 31, 2020, the Autorité des marchés financiers (the "AMF") announced a series of steps to minimize the impact of COVID-19 on the Québec financial system, including specific measures for Québec-chartered insurers.[1]

The AMF is monitoring the evolving situation with COVID-19 on a daily basis and is in frequent contact with insurers and other stakeholders. As part of its assessment of their operational capacity and actions to address the current environment, the AMF today is announcing additional measures in response to the extraordinary circumstances caused by COVID-19.

These measures are intended to provide insurers with the flexibility needed to deal with the current conditions and the tools they need to fully carry out their mission in view of the circumstances, while maintaining their financial resilience and stability. The measures are retroactive and come into effect in an insurer's first quarter beginning in 2020.

1. Payment deferrals for loans and leases granted by insurers of persons (life and health insurers)

In light of the current situation, life and health insurers are offering or may offer principal and interest payment deferrals on loans (e.g., personal loans, and commercial loans to SMEs) and rent payment deferrals on certain leases. The AMF is authorizing these insurers to treat such loans and leases benefitting from a deferral as performing assets under the CARLI guideline[2] if they deem that such loans and leases, which were not in default at the time the deferral came into effect, would have been performing loans and leases.

This means that these assets will not fall into the impaired and restructured category and will not be subject to a higher credit risk factor as a result of these payment deferrals. Insurers will have to continue to monitor the credit quality of these borrowers and tenants and follow sound credit risk management practices.

The capital relief for these loans and leases is temporary and will remain in place for the duration of the payment deferrals, up to a maximum of six months. The AMF reserves the right to require additional reporting surrounding loans and leases for which a payment deferral is granted.

2. Premium payment deferrals granted by damage insurers (P&C insurers) and life and health insurers

In cases where insurers grant premium payment deferrals to certain insureds facing temporary financial difficulties because of COVID-19, these related assets will not be subject to a higher credit risk factor per the CARLI and MCT guidelines.[3] This relief is applicable to installment premiums receivable (not yet due), receivables outstanding less than 60 days, and receivables outstanding 60 days or more, provided that the policyholder complies with the deferral terms and

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1 https://lautorite.qc.ca/fileadmin/lautorite/reglementation/assurances-inst-depot/2020/2020mars31-avis-assureurs-charte-qc-covid19-en.pdf

2 CARLI refers to the Capital Adequacy Requirements Guideline – *Insurance of persons* (life insurance) set by the AMF.

3 MCT refers to the *Capital Adequacy Guideline – Damage Insurance*, C*apital Adequacy Guideline – Self-regulatory Organizations*, and C*apital Adequacy Guideline – Reciprocal Unions* set by the AMF.

conditions. This capital treatment will also apply to receivables from agents and brokers to the extent premiums flow through them. Insurers must continue to follow sound risk management practices and monitor the ability of these policyholders to make contractual payments.

This capital relief for premiums is temporary and will apply for the duration of the premium payment deferrals, up to a maximum of six months. The AMF reserves the right to require additional reporting surrounding premiums for which a payment deferral is granted.

3. Interest rate risk capital requirements for participating products (par) of life and health insurers

In light of the impact of the current environment on the volatility in interest rate risk capital requirements for par, the AMF is announcing changes to how this aspect of the CARLI guideline is calculated. Specifically, the capital requirement in any given quarter will be equal to the average requirement of the current quarter and the requirements over the five previous quarters (i.e., the rolling average over six quarters).

This approach may be used at the insurer's discretion to determine the capital requirement for their first quarter beginning in 2020. However, as of the following quarter, this smoothing approach will become mandatory and will remain in place until the AMF communicates otherwise.

The AMF may consider making draft amendments to the CARLI guideline in the future to take these changes into account.

4. Expectations on margins for over-the-counter derivatives not cleared by a central counterparty

On April 3, 2020, after reviewing the framework for margin requirements for non-centrally cleared derivatives, the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO) extended the deadline for completing the implementation of the initial margin requirements by one year. The AMF has therefore revised its expectations introduced in the *Guideline on margins for over-the-counter derivatives not cleared by a central counterparty* to defer the effective date of its expectations in respect of initial margins to September 1, 2022, i.e., one year later than originally planned. This deferral should provide additional operational capacity for covered institutions to respond to the immediate impact of COVID-19 and, at the same time, facilitate covered institutions to act diligently in order to comply with the expectations by the revised deadline.

5. Other considerations

The AMF is asking insurers to be proactive in informing it of any financial or operational challenges they may encounter as a result of COVID-19. If the AMF decides to further modify its supervisory, regulatory or capital expectations, insurers and other stakeholders will be notified in a timely manner.

If you have any questions or wish to report any issues, please contact:

Luc Naud
Director, Capital Oversight of Financial Institutions
Luc.Naud@lautorite.qc.ca

Hélène Samson
Senior Director, Prudential Oversight of Financial Institutions
Helene.Samson@lautorite.qc.ca

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