Special Market Update

Budget 2025 and OSFI Regulatory Update: A Turning Point for Insurance Investment Strategy

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In this Special Market Update, TD Asset Management Inc. ("we", "our", "TDAM") explores how new regulatory changes could give insurers greater flexibility in their investment portfolio, allowing additional opportunities for Canadian insurance companies to invest in private market assets more effectively.

On November 4, 2025, the Canadian federal government released *Budget 2025: Canada Strong* ("the Budget"). In the new Budget, the government emphasized economic growth and a strategic shift away from Canada's reliance on the United States. The Budget also highlights the need to strengthen east-west economic links and expand Canada's global reach—reinforcing a broader goal of building a more resilient, self-sufficient economy[1].

According to the Budget, the planned deficit is expected to rise to $78 billion (C$), further supported by $90 billion (C$) in new measures over the Budget's window[1]. This year's Budget is oriented toward investment and supply-side reform, with spending directed toward infrastructure, innovation, housing, and defense, rather than the consumer-focused transfers seen in recent years[1].

Another notable component of the Budget is its effort to stimulate domestic investment by insurers and financial institutions[1]. The government proposes repealing statutory limits on borrowing and portfolio investments, replacing them with more flexible Office of the Superintendent of Financial Institutions ("OSFI") guidance and targeted limits on commercial loans, real property, and equity investments[1]. Combined with OSFI's recent changes to the Life Insurance Capital Adequacy Test ("LICAT") for infrastructure investments, these measures may significantly expand the investment opportunity set for Canadian insurance companies[2&3].

Updated LICAT Requirements for Life Insurers

On July 3, 2025, OSFI released *OSFI Update on Capital Requirement for Federally Regulated Life Insurers – Letter,* announcing the updated capital requirements for federally regulated life insurers, and reducing the capital charges for eligible Canadian infrastructure debt and equity investments in Canadian life insurance portfolios[2&3].

For unrated Canadian infrastructure debt, the associated credit risk charge is reduced from 6% to 3%[2] – a level that is more attractive than investment grade public fixed income assets. Unrated infrastructure debt is a core component of investment grade private debt, which is an asset class already favoured by life insurers[2&3].

For Canadian infrastructure equity, the market risk charge is reduced from 40% to 30%, making it more attractive than developed market equity investments[3]. Developed market equities can carry a market risk charge of 35%[2].

These changes took effect immediately following the announcement, which gave insurers the opportunity to benefit from the reduced capital requirements in their regulatory filings[2].

TDAM's View

Aligned with the direction of the Budget, OSFI's updates further encourage insurance investment into Canadian infrastructure. For life insurers, private debt becomes even more compelling, offering a strong asset-liability match, incremental yield, and improved capital efficiency relative to public corporate bonds[2].

Infrastructure equities are commonly invested alongside traditional common equities as a source of diversified return generation. This change enhances the insurer's capital efficiency, provided there is an effective way to bypass the limited partnership fund structure often associated with infrastructure equity investments.

Federal Budget on Insurance Companies Act

The Budget also proposes amendments to the Bank Act, Insurance Companies Act, and Trust and Loan Companies Act. Specifically, as it relates to insurance investors, it proposes to repeal limits on borrowing and portfolio investments in commercial loans, real property and equity, replacing them with more flexible guidance from OSFI[1].

Historically, Property and Casualty ("P&C") insurers have been constrained by a 5% cap on commercial loans as a share of their total balance sheet assets. To make matters more complex, the definition of commercial loans is broadly defined and can vary in interpretation, spanning from asset classes to investment vehicles[1].

In practice, commercial loans include prospectus-exempt debt obligations, such as private placements issued via an offering memorandum to accredited investors. Compared to their life & health counterparts, this has restricted the access of P&C insurers to more accretive, private debt investments.

In addition, certain interpretations extend the definition of commercial loans to include investment vehicles that are not widely distributed, such as institutional unit trusts offered through an offering memorandum, even if the underlying assets of these unit trusts are not classified as commercial loans. This structural restriction further constrained P&C insurers' ability to invest efficiently[1].

TDAM's View

A less restrictive commercial loan limit would grant insurers added flexibility in constructing their investment portfolios. In particular, we believe this would provide P&C insurers greater access to private fixed income assets, offering greater shorter-duration, higher-return fixed income opportunities beyond what is currently available in the public markets.

For more information, please contact your

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[1] Budget 2025: Canada Strong, Government of Canada, https://budget.canada.ca/2025/report-rapport/pdf/budget-2025.pdf

[2] OSFI Update on Capital Requirement for Federally Regulated Life Insurers – Letter [https://www.osfi-bsif.gc.ca/en/print/pdf/node/2746]

[3] LICAT Regulation (SOR/2023-197) [https://laws-lois.justice.gc.ca/eng/regulations/SOR-2023-197/page-1.html]