Canadian Institute of Actuaries
Institut canadien des actuaires

Educational Note

Guidance for the 2021 Reporting of Capital and Financial Condition Testing for Life, P&C, and Mortgage Insurers

Document 221037

Canadian Institute of Actuaries | Institut canadien des actuaires

Educational Note

Guidance for the 2021 Reporting on Capital and Financial Condition Testing for Life, P&C, and Mortgage Insurers

Committee on Risk Management and Capital Requirements

April 2021

Document 221037

Ce document est disponible en français

The actuary should be familiar with relevant educational notes. They do not constitute standards of practice and are, therefore, not binding. They are, however, intended to illustrate the application of the Standards of Practice, so there should be no conflict between them. The actuary should note however that a practice that the educational notes describe for a situation is not necessarily the only accepted practice for that situation and is not necessarily accepted actuarial practice for a different situation. Responsibility for the manner of application of standards of practice in specific circumstances remains that of the members. As standards of practice evolve, an educational note may not reference the most current version of the Standards of Practice; and as such, the actuary should cross-reference with current Standards. To assist the actuary, the CIA website contains an up-to-date reference document of impending changes to update educational notes.

MEMORANDUM

To: Members in the life and health, property and casualty, and mortgage insurance practice areas

From: Steven W. Easson, Chair
Actuarial Guidance Council

Valerio Valenti, Chair
Committee on Risk Management and Capital Requirements

Date: April 8, 2021

Subject: **Educational Note: Guidance for the 2021 Reporting of Capital and Financial Condition Testing for Life, P&C, and Mortgage Insurers**

Introduction

This educational note provides an overview of guidance to actuaries in several areas affecting the reporting of the 2021 regulatory capital requirements and financial condition testing of Life, P&C and Mortgage insurers operating in Canada. In addition, the note provides an update on recently published educational notes and introductory information about potential changes in regulatory capital reporting. This educational note is not intended to replace the review of applicable guidelines by the actuary but provides a high-level summary of key changes and updates. The actuary should refer to regulators' publications and to the relevant guideline(s) in order to ascertain whether the changes impact his or her situation. The guidance in this educational note represents a majority view of the members of the Committee on Risk Management and Capital Requirements (CRMCR) of appropriate practice consistent with the Standards of Practice (SoP).

As the COVID-19 situation continues to evolve, it is highly recommended that actuaries pay close attention to all guidance and updates from the Office of the Superintendent of Financial Institutions (OSFI), the Autorité des marchés financiers (AMF), and the Canadian Institute of Actuaries (CIA) as the information presented in this educational note may not fully capture all the impacts of the pandemic on timelines and regulatory requirements by the time of its publication.

A preliminary version of the educational note was shared with the following committees:

- Property and Casualty Financial Reporting Committee (PCFRC)
- Committee on Life Insurance Financial Reporting (CLIFR)
- Appointed Actuary (AA) Committee

The draft educational note was also presented at the Actuarial Guidance Council (AGC) in the month preceding this request for approval. The subcommittee feels that it has addressed the material comments received by the various committees.

The creation of this cover letter and educational note has followed the AGC's protocol for the adoption of educational notes. In accordance with the CIA's *Policy on Due Process for the Approval of Guidance Material Other than Standards of Practice and Research Documents*, this educational note has been prepared by CRMCR, and has received final approval for distribution by the AGC on April 6, 2021.

The actuary should be familiar with relevant educational notes. They do not constitute standards of practice and are, therefore, not binding. They are, however, intended to illustrate the application of the Standards of Practice, so there should be no conflict between them. The actuary should note however that a practice that the educational notes describe for a situation is not necessarily the only accepted practice for that situation and is not necessarily accepted actuarial practice for a different situation. Responsibility for the manner of application of standards of practice in specific circumstances remains that of the members. As standards of practice evolve, an educational note may not reference the most current version of the Standards of Practice; and as such, the actuary should cross-reference with current Standards. To assist the actuary, the CIA website contains an up-to-date reference document of impending changes to update educational notes.

CRMCR would like to acknowledge the contribution of the subcommittee that assisted in the development of this educational note: Christian Nadeau-Alary (Chair of the subcommittee), Dina Elkasir, Steve Finman, Guillaume Grondin, Cecilia Ho, Andrew Lang, Bruce Langstroth, Ivy Lee, Frédéric Saillant, Mandy Seto, William Shi, Sylvain St-Georges, and Valerio Valenti.

Guidance to members on specific situations

From time to time, CIA members may seek advice or guidance from CRMCR. Both the CIA and CRMCR strongly encourage such dialogue. CIA members would be assured that it is proper and appropriate for them to consult with the chair or vice-chairs of CRMCR.

CIA members are reminded that responses provided by CRMCR are intended to assist them in interpreting the CIA SoP, educational notes, and *Rules of Professional Conduct*, in assessing the appropriateness of certain techniques or assumptions. A response from CRMCR does not constitute a formal opinion as to whether the work in question is in compliance with the CIA SoP. Guidance provided by CRMCR is not binding upon the member.

Recent guidance

The following are recent regulatory guidelines issued by OSFI and the AMF and relevant CIA educational notes and SoP:

OSFI

- Regulatory capital requirements: *Supplementary Guidance for The Treatment of Participating Insurance in Guideline A : Life Insurance Capital Adequacy Test* (LICAT Advisory) (January 1, 2021)

- Regulatory capital requirements: *Life Insurance Capital Adequacy Test* (LICAT) (January 1, 2019)
- Regulatory capital requirements: *Minimum Capital Test For Federally Regulated Property and Casualty Insurance Companies* (MCT) (January 1, 2019)
- Regulatory capital requirements: *Mortgage Insurer Capital Adequacy Test* (MICAT) (January 1, 2019)
- Regulatory capital requirements: *MICAT Total Requirements for FTHBI Mortgages* (MICAT Advisory) (November 1, 2019)
- COVID-19 FAQ : *COVID-19 Measures – FAQs for Federally Regulated Insurers* (December 14, 2020)

AMF

- Regulatory capital requirements: *Capital Adequacy Requirements Guideline – Insurance of persons (CARLI)* (January 1, 2021) – English version available soon
- Regulatory capital requirements: *Guideline on Capital Adequacy Requirements – Property and Casualty Insurance (MCT)* (January 1, 2020)
- Regulatory capital requirements: *Guideline on Capital Adequacy Requirements – Self-Regulatory Organizations (MCT)* (January 1, 2020)
- Regulatory capital requirements: *Guideline on Capital Adequacy Requirements – Reciprocal Unions (MCT)* (January 1, 2020)

CIA

- Revised SoP: *Section 2500 Financial Condition Testing* (October 15, 2019)
- Educational note: *Financial Condition Testing* (April 27, 2020)
- Revised educational note: *Regulatory Capital Filing Certification for Life Insurers* (July 12, 2018)
- Educational note: *Life Insurance Capital Adequacy Test (LICAT) and Capital Adequacy Requirements for Life and Health Insurance (CARLI)* (March 8, 2018)

The publications listed above can either be found on the OSFI website under Table of Guidelines or Table of Advisories, the AMF website under Guidelines – Insurers, or the CIA website under Publications. A list of some of the current guidelines, filing requirements, educational notes, and research papers related to capital management is available in the appendices.

Notable potential future changes

In 2019, OSFI issued proposed revisions to *Guideline B-3: Sound Reinsurance Practices and Procedures* as well as a *Draft Guideline E-25: Internal Model Oversight Framework* for comments.

- OSFI *Draft Revised Guideline B-3: Sound Reinsurance Practices and Procedures* (June 12, 2019)

- OSFI *Draft Guideline E-25: Internal Model Oversight Framework, for P&C insurers* (June 21, 2019)

In 2020, OSFI issued *Draft Guideline B-2: Property and Casualty Large Insurance Exposures and Investment Concentration* for public comments.

- OSFI *Draft Guideline B-2: Property and Casualty Large Insurance Exposures and Investment Concentration* (November 26, 2020).

Final OSFI guidelines B-2 and B-3 are expected to be released in 2021. The finalization of OSFI guideline E-25 is on hold until further notice. Actuaries should refer to the OSFI website for additional communications as they become available. OSFI COVID-19 Measures FAQ is expected to be updated regularly as the pandemic situation evolves.

OSFI and the AMF will adapt their life, P&C and mortgage insurance regulatory capital requirement guidelines to reflect changes related to IFRS 17. As part of directed confidential consultations, they have issued draft guidelines and conducted quantitative impact studies (QIS & QIS2), which were due respectively on October 31, 2019 and December 31, 2020 (February 6, 2021 for sensitivity testing by life insurers). They plan to conduct a QIS3 with packages to be provided in June 2021 and responses due by September 2021.

In parallel, OSFI and the AMF have conducted a series of QISs to develop a new standard approach to determine capital requirements for segregated fund guarantee (SFG) risk, which will reflect IFRS 17. Results for the most recent QIS (QIS4 SFG) were due March 15, 2021 (March 31, 2021 for sensitivity testing). They plan to conduct a QIS5 SFG with packages to be provided in September 2021 and responses due by December 2021. In November 2020, OSFI published a letter that laid out the timelines and consultations to develop the new approach. Concurrently, the AMF announced the same objectives, timelines, and consultations in a letter sent directly to appointed actuaries of Quebec insurers.

The final LICAT, CARLI, MCT, and MICAT 2023 guidelines, including the new SFG approach, are expected to be published on OSFI's and AMF's websites in August 2022.

This educational note is organized in the following sections:

If you have any questions or comments regarding this educational note, please contact either Christian Nadeau-Alary (Chair of the subcommittee) at Christian.Nadeau-Alary@tdassurance.com or Valerio Valenti at valerio.valenti@sunlife.com.

SWE, VV

1. Life regulatory capital requirements for 2021 *(modified)*

The Office of the Superintendent of Financial Institutions (OSFI) and the Autorité des marchés financiers (AMF) introduced new regulatory capital frameworks called, respectively, Life Insurance Capital Adequacy Test (LICAT) and Capital Adequacy Requirements for Life and Health Insurers (CARLI), effective January 1, 2018. Each year, OSFI and the AMF consider whether changes are required to improve the risk measures, address emerging issues, and encourage improved risk management.

The guidelines provide the framework within which OSFI and the AMF assess whether a life and health insurance company maintains adequate capital and whether a company operating in Canada on a branch basis maintains an adequate margin. The guidelines describe the capital required using measures based on risks and define the capital or the margin that is available to meet the minimum standard.

OSFI is not expected to publish an updated version of the LICAT guideline for 2021. Therefore, OSFI's 2019 LICAT guideline, effective January 1, 2019 remains valid for 2021.

In November 2020, OSFI issued an advisory to the 2019 LICAT guideline to remain in effect until January 1, 2023, at which time the guidance will be incorporated into the LICAT guideline. Following this issuance, the draft 2020 LICAT published in February 2020 was removed from OSFI's website.

Notable guidance in the advisory of the 2019 LICAT guideline includes the following:

- Introduction of a smoothing technique for determining the interest rate risk requirements for participating insurance.
- Clarification on OSFI's expectations related to claiming participating insurance credit and the treatment of negative dividend stabilization reserves.

The AMF published an updated 2021 CARLI guideline, effective January 1, 2021. Notable changes in the AMF's 2021 CARLI guideline compared to AMF's 2020 CARLI guideline were as follows:

- Section 5.1.2.3 Required capital for interest rate risk – Introduction of a smoothing technique for determining the interest rate risk requirements for participating insurance.
- Section 9.1.1 Conditions for the participating product credit – Clarification of the AMF's expectations related to claiming participating insurance credit and the treatment of negative dividend stabilization reserves.
- Section 2.1.2.7 Investments in capital instruments of P&C insurance company subsidiaries, dissimilar regulated financial subsidiaries and non-qualifying subsidiaries – Reinstatement of the complete deduction from Tier 1 capital of goodwill and other intangible assets related to P&C subsidiaries.

To address issues stemming from COVID-19, OSFI and the AMF announced the following actions with respect to LICAT and CARLI in their respective news release (OSFI, AMF) of April 9, 2020 :

- Loan payment deferrals due to COVID-19 will not increase capital requirements on related mortgages, leases, or other loans.
- Approved premium payment deferrals will not increase capital requirements on outstanding premiums related to those deferrals.

OSFI and the AMF gradually phased out these measures in their news release (OSFI, AMF), respectively of August 31, 2020 and September 3, 2020. As of March 1, 2021, these measures were no longer applicable.

2. P&C regulatory capital requirements for 2021 *(modified)*

OSFI's Guideline A, Minimum Capital Test (MCT) for property & casualty insurance companies was originally implemented in 2003. The following year, the AMF implemented its own MCT, the *Guideline on Capital Adequacy Requirements – Property and Casualty Insurance*, largely harmonized with OSFI's MCT guideline. In June 2019, the AMF also published two new MCT guidelines regarding the solvency requirements for self-regulatory organizations and reciprocal unions that are authorized to carry on insurer activities[1]. These new guidelines were, for the most part, very similar to the 2019 MCT guideline for traditional P&C insurers, but with necessary adaptations. Each year, OSFI and the AMF consider whether changes are required to improve the risk measures, address emerging issues, and encourage improved risk management.

The guidelines provide the framework within which OSFI and the AMF assess whether a P&C company maintains adequate capital and whether a company operating in Canada on a branch basis maintains an adequate margin. The guidelines describe the capital required using measures based on risks and define the capital or margin that is available to meet the minimum standard.

OSFI is not expected to publish an updated version of the MCT guideline for 2021. Therefore, OSFI's 2019 MCT guideline, effective January 1, 2019, remains valid for 2021. The AMF is not expected to publish updated versions of MCT guidelines for 2021. Therefore, AMF's 2020 MCT guidelines remain valid for 2021.

OSFI's 2019 MCT and the AMF's 2020 MCT guidelines introduced a transition period ending on December 31, 2022 for the increase in the margin required for reinsurance ceded to unregistered reinsurers from 15% to 20% in Sections 4.3.3.3 (OSFI) and 3.4.2.2 (AMF).

To address issues stemming from COVID-19, OSFI and the AMF announced the following action with respect to MCT in their respective news release (OSFI, AMF) of April 9, 2020:

- Approved premium payment deferrals will not increase capital requirements on outstanding premiums related to those deferrals.

[1] When we refer to a P&C company and MCT in this document, we also refer to self-regulatory organizations and reciprocal unions that are authorized to carry on insurer activities in Québec, and their applicable MCT.

OSFI and the AMF gradually phased out these measures in their news release (OSFI, AMF), respectively of August 31, 2020 and September 3, 2020. As of March 1, 2021, these measures were no longer applicable.

3. Mortgage Insurance regulatory capital requirements for 2021 *(modified)*

OSFI introduced a new regulatory capital framework for mortgage insurers called *Mortgage Insurer Capital Adequacy Test* (MICAT), effective January 1, 2019. The guideline combines the January 1, 2017 advisory *Capital Requirements for Federally Regulated Mortgage Insurers* (Advisory) and the relevant portions of the guideline *Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies* (MCT Guideline) into a single document.

The guideline provides the framework within which OSFI assesses whether a mortgage insurance company maintains adequate capital. The guideline describes the capital required using measures based on risks and defines the capital that is available to meet the minimum standard.

Property and casualty insurance companies that are not mortgage insurers will continue to determine their regulatory capital requirements using the MCT guideline.

Given that the MICAT mainly consolidated existing guidance, it was not expected to have material impact on the regulatory capital for mortgage insurers and therefore, OSFI issued the MICAT in final form.

To address issues stemming from COVID-19, OSFI announced, in the spring of 2020, the following temporary measures with respect to MICAT:

- Payment deferrals will not cause insured mortgages to be treated as delinquent or in arrears (news release of March 27, 2020).
- Approved premium payment deferrals will not increase capital requirements on outstanding premiums related to those deferrals (news release of April 9, 2020).

OSFI gradually phased out these measures in their news release of August 31, 2020. As of March 1, 2021, these measures were no longer applicable.

OSFI is not expected to publish an updated version of the MICAT guideline for 2021. Therefore, OSFI's 2019 MICAT guideline remains valid for 2021.

4. Considerations for the 2021 Own Risk and Solvency Assessment (ORSA) *(slightly modified)*

As per Subsection 2430 of the SoP, the ORSA report is part of the information needed to provide an understanding of the insurer's operations, its obligations, and the resources available to meet those obligations.

On September 10, 2019, the Actuarial Standards Board (ASB) approved the revised SoP to incorporate changes to Section 2500 Dynamic Capital Adequacy Testing. One of the objectives of the revisions is to allow for a better alignment with ORSA regulatory requirements as they relate to work needed to report on the expected future financial condition of an insurance entity. Further information on the revised SoP can be found in the next section.

The following guidelines have been published by Canadian insurance regulators with regard to ORSA:

- OSFI, *Guideline E-19: Own Risk and Solvency Assessment*, effective January 1, 2018.
- AMF, *Capital Management Guideline*, Section 5, Own Risk and Solvency Assessment, effective May 2015.

In addition, here are other actuarial publications on ORSA:

- *Report on the CIA ORSA Survey conducted in April 2015*.
- *IAA Risk Book*, Chapter 10—Own Risk and Solvency Assessment (ORSA), March 8, 2016.

5. Considerations for the 2021 Financial Condition Testing (FCT) *(modified)*

Revised *Standard of Practice*: Section 2500 *(unchanged)*

On September 10, 2019, the ASB approved the revised SoP, with an effective date of January 1, 2020.

The objectives of the revisions to Section 2500 were to:

- provide a more robust approach to satisfy the federal and provincial Insurance Acts' requirement to report on the expected future financial condition of an insurance entity; and
- allow for a better alignment with Own Risk and Solvency Assessment (ORSA) regulatory requirements as they relate to work needed to report on the expected future financial condition of an insurance entity.

The key changes in the standard are summarized below:

- Name of the standard: Dynamic Capital Adequacy Testing (DCAT) is renamed as Financial Condition Testing (FCT).
- Definition of "satisfactory financial condition": the threshold for the base scenario is changed to the internal target ratio(s) as determined by ORSA, rather than the regulatory supervisory level. It also tests two other thresholds: a) going concern, and b) solvency.
  - The threshold for "going concern" scenarios is the minimum regulatory target.
  - The threshold for "solvency" scenarios is that the statement value of assets is sufficient to cover the statement value of the liabilities.
- Opinion of the actuary is modified to link to ORSA internal target(s) and explicitly allow for an opinion of "satisfactory subject to" certain conditions. It also removes wording about reporting requirements related to scenarios tested and their description, significant assumptions description, and the identification of key risk exposures.
- Recent financial position and forecast period: the most appropriate number of years is left for the actuary to decide, based on the facts and circumstances of the insurer and the analysis.

- Risk categories: the detailed listings of risk categories are removed.
- Distinction has been made between ripple effects (which may include management's routine actions) and corrective management actions.
- General harmonization with ORSA, including a single report: throughout Section 2500, wording is added to refer to ORSA or other processes where coordination could be beneficial.

In April 2020, the CRMCR issued an educational note, *Financial Condition Testing*, to provide additional guidance to the actuary on the above topics in the revised SoP.

Transition to IFRS 17 *(modified)*

In May 2017, the International Accounting Standards Board® (the Board) issued *IFRS 17 Insurance Contracts* (IFRS 17), replacing *IFRS 4 Insurance Contracts*. The implementation date was deferred in 2020 to fiscal year beginning on or after January 1, 2023, with comparative financials produced for the immediate prior fiscal year. The Board discussed amendments to IFRS 17 Insurance Contracts in its recent meetings, in response to concerns and challenges raised by stakeholders as IFRS 17 is being implemented. The amendments to IFRS 17 were published in June 2020. For the most current information, please see the IASB website. Note that an eIFRS professional account is required to access the final standards and related documents.

Insurers are proceeding with their implementation plans but some may not yet be able to reliably estimate financial statements based on the new standard. The ability of insurers to estimate required and available capital will be impacted by their ability to estimate IFRS 17 financial statements.

In principle, FCT forecasts beyond January 1, 2023, should be produced under IFRS 17 and the updated regulatory capital requirement guidelines. However, the regulatory capital requirement guidelines are not final, and insurers may not yet be able to produce reliable financial projections under IFRS 17. In these circumstances, an appropriate practice would be to continue to perform FCT in 2021 using the current accounting standards, actuarial standards, and current regulatory capital guidelines, with additional qualitative analysis on IFRS 17. Considerations for this qualitative analysis could include directional impacts associated with key items, such as but not limited to discount rates, risk adjustment and contractual service margin, under the IFRS 17 framework. Quantitative analysis could also be added if available. If Quantitative Impact Studies reveal potential issues from newly released versions of the regulatory capital requirement guidelines in between filings of the FCT report, it could also be appropriate for the Appointed Actuary to describe these potential issues to the board or chief agent along with any potential mitigating actions, either in the FCT report or presentation, or through regular IFRS 17 updates. The actuary is expected to enhance IFRS 17 analysis for FCT in 2022 in line with the development of industry practices and regulatory guidelines.

Special considerations due to COVID-19 *(modified)*

In light of recent developments due to COVID-19, insurers may experience unforeseen financial results due to market conditions and/or additional claim activity. The following excerpts from the revised section 2500 of the SoP may be relevant in this situation:

.03 The appointed actuary should ensure that the investigation is current. The investigation should take into consideration recent events and recent financial operating results of the insurer.

.13 The actuary would consider recent events and recent operating results of the insurer up to the date of the report.

.14 If an adverse event occurs between the date of the report and the date of its presentation to the insurer's board of directors (or its chief agent for Canada), then the actuary would, at a minimum in the presentation to the insurer's board of directors (or its chief agent for Canada), address the event and its potential implications on the results of the investigation. If appropriate, the actuary would redo the investigation.

Any adjustments made to the base scenario due to COVID-19 would typically also affect the adverse scenarios.

The research papers, *Considerations for the Development of a Pandemic Scenario* and *Report 2: Canadian Insurance Industry Monthly Aggregate Data Analysis* and the CIA's COVID-19 Hub may also be useful for the development of the base and/or adverse scenarios.

Additional guidance on the 2021 FCT (new)

In February 2021, the CMRCR submitted a survey on the FCT to the Appointed Actuaries to identify areas where additional guidance may be needed. The CRMCR decided to provide the following additional clarifications:

Purpose of the going concern scenario

The going concern scenario tests an insurer's ability, through its developing capital position, ripple effects, and corrective management actions to maintain operations and meet its obligations while meeting or exceeding regulatory minimum levels. The scenario is more likely to occur and/or be less severe than a solvency scenario.

In some cases, a solvency scenario could function as a going concern scenario if it is deemed satisfactory under the going concern requirements.

Adverse scenario calibration

While the FCT educational note recommends minimum percentiles for the solvency and going concern scenarios, it may not be possible to measure the percentile severity of a standalone or integrated scenario. In these cases, the actuary would apply judgement to ensure that the scenario is sufficiently adverse to test the insurer's ability to meet the thresholds for a satisfactory opinion. The approach used to determine the scenarios, or the risk factors within an integrated scenario, could be deterministic or stochastic, or a combination of the two. Considerations for a deterministic approach could include the variability in historical results or credibility of data.

Climate change

The impact of climate change is an important emerging risk that the actuary could consider as an integrated adverse scenario. Considerations for the development of the scenario could be based on OSFI's categorization of climate-related risks, in their January 2021 discussion paper, *Navigating Uncertainty in Climate Change*:

- Physical risk, which arises from a changing climate increasing the frequency and severity of wildfires, floods, wind events, and rising sea levels, among other things.
- Transition risk, which stems from efforts to reduce greenhouse gas emission as the economy shifts towards a lower greenhouse gas footprint.
- Liability risk, which relates to potential exposure to the risks associated with climate-related litigation.

6. OSFI Draft *Guideline B-3: Sound Reinsurance Practices and Procedures (modified)*

On June 8, 2018, OSFI issued a *Discussion Paper on OSFI's Reinsurance Framework* that included proposals to enhance and clarify OSFI's expectations for prudent reinsurance practices.

On June 12, 2019, OSFI issued proposed revisions to *Guideline B-3: Sound Reinsurance Practices and Procedures*. The revisions to the guideline reflect some of the proposals in the discussion paper, as well as comments received in response to the discussion paper.

More comments were collected regarding those revisions and are being assessed by OSFI in order to finalize the Guideline B-3 by the end of 2021.

Key changes to the draft guideline encourage insurers to better identify and manage risks arising from the use of reinsurance, particularly counterparty risk. Revisions to the guideline include that reinsurance payments flow directly to a cedant insurer in Canada, and reaffirm OSFI's principles-based expectation that an insurer not cede substantially all of its risks. A federally regulated insurer's (FRI's) ceding limits should be set for its overall book of business, and may also be established by line of business, as appropriate. The draft guideline also includes a statement that OSFI will generally not recognize or grant credit for a foreign FRI's reinsurance arrangement(s) when risks insured in Canada are ceded back to the foreign FRI's home office through affiliated reinsurers.

Based on the draft guideline, some insurers may need to adjust aspects of their reinsurance programs. OSFI intends to offer information sessions when it releases the final guideline.

7. OSFI Draft *Guideline B-2: Property and Casualty Large Insurance Exposures and Investment Concentration* (new)

On November 26, 2020, OSFI issued for comment *Draft Revised Guideline B-2: Property and Casualty Large Insurance Exposures and Investment Concentration* for federally regulated property and casualty insurance companies (P&C FRIs). The revisions to this guideline reflect written input, meetings, and dialogue with industry participants in response to the discussion paper on OSFI's reinsurance framework.

The draft guideline addressed OSFI's expectation for single large insurance exposures for P&C FRIs:

- P&C FRIs should have a comprehensive gross underwriting limit policy that is consistent with the P&C FRI's risk appetite framework.
- P&C FRIs are expected to develop and establish their own criteria and approach for determining and measuring the maximum loss on a single insurance exposure.
- At no time should any P&C FRI's net retention, plus its largest net counterparty unregistered reinsurance exposure, due to the occurrence of a maximum loss on a single insurance exposure, exceed the limits set by OSFI.

The requirements for investment concentration remained unchanged in the draft guideline.

Based on the draft guideline, some insurers may need to adjust aspects of their reinsurance programs. OSFI intends to release the final guideline in 2021 and accompany it with a non-attributed summary of comments and OSFI's responses.

8. OSFI *Draft Guideline E-25: Internal Model Oversight Framework* for P&C insurers *(modified)*

On June 21, 2019, OSFI issued for comment *Draft Guideline E-25: Internal Model Oversight Framework* for federally regulated property and casualty insurance companies.

This guideline applies to insurers that have received approval to use an internal model to calculate MCT regulatory capital requirements for insurance risk. The guideline establishes OSFI's expectations for insurers when they establish and maintain an oversight framework for the internal models.

The key elements of the draft guideline include:

- establishing a model oversight framework;
- periodic assessment of the framework via an internal model risk control (IMRC) process;
- documentation of the framework and IMRC process; and
- periodic review and assessment of the framework and the IMRC process by internal audit.

The finalization of OSFI guideline E-25 is on hold until further notice.

Appendix A: OSFI documentation

Guidelines and advisories

Filename	Title	Effective Date
LICAT19_adv	*Supplementary Guidance for The Treatment of Participating Insurance in Guideline A: Life Insurance Capital Adequacy Test*	01/01/2021
LICAT19	*Life Insurance Capital Adequacy Test*	01/01/2019
MCT2019	*Minimum Capital Test For Federally Regulated Property and Casualty Insurance Companies*	01/01/2019
MICAT	*Mortgage Insurer Capital Adequacy Test*	01/01/2019
MICAT_ADV_2019	*MICAT Total Requirements for FRHBI Mortgages*	01/11/2019
A4	*Regulatory Capital and Internal Capital Targets*	01/01/2018
E19	*Own Risk and Solvency Assessment*	01/01/2018
B5-19	*Asset Securitization*	01/01/2019
B21	*Residential Mortgage Insurance Underwriting Practices and Procedures*	01/03/2019
Draft B2	*Property and Casualty Large Insurance Exposures and Investment Concentration*	TBD
Draft B3	*Sound Reinsurance Practices and Procedures*	TBD
Draft E25	*Internal Model Oversight Framework*	TBD

Filing instructions and reporting requirements

Filename	Title	Effective Date
life-rr	*Reporting Requirements for Life Insurance Companies and Fraternal Benefit Societies*	01/01/2020
pc-rr	*Reporting Requirement for Property and Casualty Insurance Companies*	01/01/2020
LICAT_inst	*LICAT Filing Instructions*	01/12/2019
LICAT_dscreq	*Life Insurance Capital Adequacy Test Public Disclosure Requirements*	31/12/2018

Appendix B: AMF documentation

Guidelines

Filename	Title	Effective Date
ld_escap_01-2021_pf.pdf	*Capital Adequacy Requirements Guideline – Insurance of persons (CARLI)* (English version available soon)	01/01/2021
ld_tcm_01_2020_pf_an.pdf	*Guideline on Capital Adequacy Requirements – Property and Casualty Insurance (MCT)*	01/01/2020
ld_tcm_oar_01_2020_pf_an.pdf	*Guideline on Capital Adequacy Requirements – Self-Regulatory Organizations (MCT)*	01/01/2020
ld_tcm_ur_01_2020_pf_an.pdf	*Guideline on Capital Adequacy Requirements – Reciprocal Unions (MCT)*	01/01/2020
ld_gestion_capital_an.pdf	*Capital Management Guideline*	01/05/2015

Filing instructions and reporting requirements

Filename	Title	Effective Date
guide_actuaire_esf_vie__anglais.pdf	*Actuary's Guide regarding the Financial Condition Testing report for Insurers of Persons*	01/03/2021
actuary_guide_pc_fct.pdf	*Actuary's Guide regarding the Financial Condition Testing report of P&C Insurers*	25/01/2021
guide-depot-releves-trimestiels-supplements-annuels_fr.pdf	*Instructions for Quarterly and Annual Statements (CARLI)* (Available in French only)	01/01/2019

Appendix C: CIA guidance

Accession Number	Title	Publication Date
220057	Educational note: *Financial Condition Testing*	27/04/2020
219113	Revised standard of practice: *Section 2500 Financial Condition Testing*	15/10/2019
218097	Revised educational note: *Regulatory Capital Filing Certification for Life Insurers*	12/07/2018
218033	Educational note: *Life Insurance Capital Adequacy Test (LICAT) and Capital Adequacy Requirements for Life and Health Insurance (CARLI)*	08/03/2018
221023	Report: *Report 2: Canadian Insurance Industry Monthly Aggregate Data Analysis*	23/02/2021
209095	Research paper: *Considerations for the Development of a Pandemic Scenario*	15/10/2009