September 27, 2021

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Assistant Superintendent, Regulation
Office of the Superintendent of Financial Institutions

**Subject: Draft Minimum Capital Test (MCT) Guideline**

The Canadian Institute of Actuaries (CIA) is pleased to provide the following comments on the draft 2023 MCT Guideline, issued on June 21, 2021. Our comments are summarized according to specific sections of the guideline.

**1) *Section 2.3.1 – Regulatory Adjustments to Capital Available, Deductions***

*Any asset for insurance acquisition cash flows must be deducted from capital available*.

- OSFI has confirmed that "*There is no capital deduction for unamortized insurance acquisition cash flows, i.e., those that are deferred and amortized as part of Liability for Remaining Coverage (LRC), except for what already exists for A&S.*"
- We suggest that OSFI provides further clarifications about which type expenses would be deducted from capital available. Could these assets include, as an example, directly attributable prepaid acquisition expenses not yet recognized in the LRC?

**2) *Section 4.2.2.2 – Insurance Risk, Unexpired Coverage for reinsurance contracts held***

*Unexpired coverage for reinsurance contracts held (PAA)*
*= [(asset for remaining coverage excluding loss recovery component*
*+ Unamortized reinsurance commission)*
*+ Premiums payable to the assuming insurer*
*+ expected future reinsurance premiums] X ELR*
*– expected future reinsurance premiums net of reinsurance commissions*

- The group preparing these comments struggled to understand this formula. We believe it is not intuitive or self-explanatory. A numerical illustrative example would be helpful.
- As we understand it, the first three lines refer to reinsurance contracts held in force (i.e., the unearned premium), and the last two lines refer to reinsurance contracts to be issued in the future to cover the in-force issued portfolio.
- For "future reinsurance premiums," could OSFI clarify whether the entire fulfilment cash flows of those contracts need to be included or just the portion related to the in-force issued underlying portfolio (i.e., the direct UPR)?

### 3) *Section 4.3.2.1 – Registered reinsurers, Definition of registered reinsurer*

- We note the insertion of Provincial Risk Sharing Pools (RSP) administered by the Facility Association (FA), as well as the *Groupement des assureurs automobiles* (GAA) in the definition. Similar to the current 2020 MCT guideline, a 0.7% capital charge is applied to any receivable amount.
- A further 2.5% capital charge is applied to any recoverable amount in the draft 2023 guideline.
- In comparison, under the current 2020 MCT guideline, when treated as negative direct business, the recoverable does not affect the capital for credit risk.
- Considering the nature of Provincial RSP and FA, and the industry ties/support, the capital charge of 2.5% appears to overstate the risk. Could OSFI provide additional information that would support the calibration?
- The business pooled under the RSP will be treated as ceded business, and then a portion will be assumed, based on the company's market share. This mechanism is very similar to an intra-group pooling arrangement. Would OSFI consider treating this similarly to an intra-group pooling arrangement which would normally be exempt from the application of the credit risk factor?

### 4) *Section 4.3.3.2 – Unregistered reinsurers, Deduction from capital available*

- We noted the insertion of item C) "the amount of cash outflows associated with the funds withheld collateral that are included in (A) and (B) above." The description should be clarified.
- Would it be possible to provide additional information, for example, a description as to what this amount is pertaining?

The CIA appreciates the opportunity to provide feedback on these issues, and we would welcome further discussion with you throughout this process.

If you have any questions, please contact Chris Fievoli, CIA Staff Actuary, Communications and Public Affairs, at 613-656-1927 or chris.fievoli@cia-ica.ca.

Sincerely,

[original signature on file]

Michel St-Germain, FCIA
Immediate Past President, Canadian Institute of Actuaries

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