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Educational Note

Guidance for the 2022 Reporting of Capital and Financial Condition Testing for Life, P&C, and Mortgage Insurers

Document 222030

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Guidance for the 2022 Reporting on Capital and Financial Condition Testing for Life, P&C, and Mortgage Insurers

Committee on Risk Management and Capital Requirements

February 2022

Document 222030

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: February 28, 2022

Subject: **Educational Note: Guidance for the 2022 Reporting of Capital and Financial Condition Testing for Life, P&C, and Mortgage Insurers**

Introduction

The Committee on Risk Management and Capital Requirements (CRMCR) has prepared this educational note to provide guidance to actuaries in several areas affecting the reporting of the 2022 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) to ascertain whether the changes impact the actuary's situation.

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). 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 this educational note was shared with the following committees for their review and comments:

- Property and Casualty Financial Reporting Committee
- Committee on Life Insurance Financial Reporting
- Appointed Actuary Committee
- Enterprise Risk Management Practice Committee

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This educational note was also presented at the Actuarial Guidance Council (AGC) in the month preceding its approval. The CRMCR is satisfied it has sufficiently addressed the material comments received by the various committees and the AGC.

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 February 25, 2022.

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.

The 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), Steve Firman, Andrew Lang, Bruce Langstroth, Ivy Lee, Devika Prashad, Sylvain St-Georges, and Valerie Valenti.

Guidance to members on specific situations

From time to time, CIA members may seek advice or guidance from the CRMCR. Both the CIA and the 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 the CRMCR.

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

<u>OSFI Guidelines</u>

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

- COVID-19 FAQ: *COVID-19 Measures – FAQs for Federally Regulated Insurers* (November 4, 2021)

AMF Guideline

- Regulatory capital requirements: *Capital Adequacy Requirements Guideline – Insurance of persons (CARLI)* (January 1, 2021) – English version available soon

The publications listed above can be found on the OSFI website under Table of Guidelines or Table of Advisories or the AMF website under Guidelines – Insurers. 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

OSFI Guidelines

In November 2021, OSFI issued *Draft Guideline B-13: Technology and Cyber Risk Management* for public comments by February 9, 2022. The final guideline is expected to be published in late June.

Final OSFI Guidelines B-2 (*Property and Casualty Large Insurance Exposures and Investment Concentration*), and B-3 (*Sound Reinsurance Practices and Procedures)* were released in February 2022 and will come into effect on January 1, 2025. The finalization of OSFI Guideline E-25 (*Internal Model Oversight Framework)* is on hold until further notice.

Based on OSFI's May 2021 near-term plan of prudential policy, additional guidelines are expected to be released in 2022. As such the list above may not be exhaustive. Actuaries should refer to the OSFI website for additional communications as they become available.

AMF Guidelines

On October 21, 2021, the AMF launched a six-week public consultation on an updated *Sound Commercial Practices Guideline* that applies to authorized financial institutions in Québec. The main updates reflected recent changes to international and Canadian sound commercial principles, new or amended acts or regulations, and observations based on supervisory activities.

On November 4, 2021, the AMF launched a three-month public consultation on a new *Incentive Management Guideline* that will apply to authorized financial institutions in Québec. The main elements reflected in the draft guideline include the updates of the *Sound Commercial Practices Guideline*, work on incentives management carried out in Canada, and observations based on supervisory activities.

The AMF intends to release both final guidelines in 2022. Detailed information can be found in the *Public consultations* page of the AMF website.

Regulatory Capital Guideline changes due to IFRS 17

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, QIS 2, and QIS 3), which were due respectively on October 31, 2019, December 31, 2020, and in phases between October 1, 2021 and November 30, 2021. Alongside QIS 3, a public consultation was conducted on the draft guidelines. Additional data calls from OSFI and the AMF are expected in 2022 for selected companies to supplement the QIS work.

OSFI plans to conduct a Transition Readiness Test (TRT) for all federally regulated insurers (FRIs), and Québec life insurers will be required to submit the interim capital form under IFRS 17. Both are expected to be due by September 29, 2022[1].

The final LICAT, CARLI, Minimum Capital Test (MCT), and Mortgage Insurer Capital Adequacy Test (MICAT) 2023 guidelines are expected to be distributed to the insurers by the end of June 2022 and published on OSFI's and AMF's websites in August 2022.

<u>Segregated fund guarantee (SFG) capital changes</u>

In parallel, OSFI and the AMF have conducted a series of QIS to develop a new standard approach to determine capital requirements for segregated fund guarantee (SFG) risk, which will reflect IFRS 17.

In June 2021, OSFI and the AMF announced that they were deferring the implementation date of the new approach to January 1, 2025 (from January 1, 2023). Between 2023 and 2025, the current method for the capital treatment of SFG risk will be retained, updated to accommodate IFRS 17.

In November 2021, OSFI published a letter that laid out the timelines and consultations to develop the new approach.

- SFG QIS 5 including sensitivity tests and qualitative questionnaire is expected to be launched in February 2022.
- The final approach will be detailed in the new Chapter 7 of the LICAT 2025 Guideline.

Concurrently, the AMF announced the same objectives, timelines, and consultations in a letter sent directly to the appointed actuaries of Québec insurers.

<u>Financial Condition Testing educational note</u>

To reflect changes related to IFRS 17, the CRMCR is expecting to release in late 2022 a revised version of the Financial Condition Testing (FCT) educational note with an effective date of January 1, 2023[2]. Additional guidance with respect to IFRS 17 for the production of 2022 FCT reports is provided in Section 4 of this educational note.

<u>New Enterprise Risk Management (ERM) part for Canadian Standards of Practice</u>

Following the release of the International Standard of Actuarial Practice 6 (ISAP 6) – Enterprise Risk Management and IAIS Insurance Core Principles, the Actuarial Standards Board (ASB) established a designated group to review the Canadian SOP for consistency

[1] July 31, 2023 for subsidiaries of deposit taking institutions.

[2] April 1, 2023 for some self-regulatory insurance organizations and November 1, 2023 for insurance subsidiaries of deposit-taking institutions.

with this new ISAP. A new Part 8000 on enterprise risk management is being developed and is expected to be added to the SOP in 2022.

This educational note is organized in the following sections:

If you have any questions or comments regarding this educational note, please contact the CIA head office at guidance.feedback@cia-ica.ca.

SWE, VV

1. Life regulatory capital requirements for 2022 *(slightly 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 foreign 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 2022. Therefore, OSFI's LICAT 2019 Guideline, effective January 1, 2019, remains valid for 2022.

In November 2020, OSFI issued an advisory to the LICAT 2019 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 LICAT 2020 Guideline published in February 2020 was removed from OSFI's website.

Notable guidance in the advisory of the LICAT 2019 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 CARLI 2021 Guideline, effective January 1, 2021. Notable changes in the AMF's CARLI 2021 Guideline compared to AMF's CARLI 2020 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.

2. P&C regulatory capital requirements for 2022 *(slightly 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[3]. These new guidelines were, for the most part, very similar to the AMF's MCT 2019 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 foreign 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 2022. Therefore, OSFI's MCT 2019 guideline, effective January 1, 2019, remains valid for 2022. The AMF is not expected to publish updated versions of MCT guidelines for 2022. Therefore, AMF's MCT 2020 guidelines remain valid for 2022.

The transition period in OSFI's MCT 2019 and the AMF's MCT 2020 guidelines 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) will end on December 31, 2022.

3. Mortgage Insurance regulatory capital requirements for 2022 *(slightly 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 guidelines.

OSFI is not expected to publish an updated version of the MICAT guideline for 2022. Therefore, OSFI's MICAT 2019 guideline remains valid for 2022.

[3] When we refer to a P&C company and MCT in this document, we also refer to self-regulatory organizations and

4. Considerations for the 2022 Financial Condition Testing (FCT) *(modified)*

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

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

In April 2020, the CRMCR issued an educational note, *Financial Condition Testing*, to provide additional guidance to the actuary with respect to the revised SOP. This guidance remains valid for 2022 FCT with the additional guidance provided in the following sections.

Transition to IFRS 17 (modified)

In June 2020, the International Accounting Standards Board (IASB) published the final standard for Insurance Contracts, IFRS 17. The standard will be effective for annual reporting periods beginning on or after January 1, 2023. The IASB website contains the most current information[4].

Accounting and capital basis for the 2022 FCT process

In principle, FCT forecasts beyond the effective date would be produced under IFRS 17 and the updated regulatory capital requirement guidelines.

In practice, the actuary may face a number of challenges in preparing financial projections reflecting IFRS 17 and updated capital requirements for the 2022 process, such as:

- Accounting and actuarial policies and methodologies may not be final and potential choices might have material impacts on the financial projections;
- Actuarial models and financial reporting systems development may not be complete, producing practical limitations on the actuary's ability to produce financial projections;
- The company's latest business forecast may not project certain cash flows or assumptions needed under IFRS 17, requiring the actuary to calibrate additional assumptions over the forecast period;
- Regulatory capital guidelines may not be finalized; and
- Tax and other parameters that affect the projections may not be finalized.

The actuary would perform FCT in 2022 either using IFRS 17 throughout the projection period, or using the current accounting standards, actuarial standards, and current regulatory capital guidelines, together with additional quantitative and qualitative analysis on IFRS 17. An FCT performed under the current accounting standards and supplemented only with a qualitative analysis on IFRS 17 would not be an acceptable practice[5].

The quantitative analysis of IFRS 17 would be performed on a best effort basis and using working assumptions for guidelines and internal decisions that may not be final at the time of the FCT analysis. Working assumptions would be described in the report with focus on areas of material sensitivity in relation to the FCT results.

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[4] Note that an eIFRS professional account is required to access the final standards and related documents.

[5] Unless regulatory guidance states otherwise. For example, IFRS 17 qualitative discussion only would be sufficient to comply with the AMF requirements for Quebec chartered P&C insurers 2022 FCT reporting.

The actuary would clearly disclose the basis under which the projections were produced, the regulatory capital requirements guideline used, the key assumptions made regarding the application of IFRS 17 and the taxation of earnings, and the sensitivity of results to material decisions and assumptions.

<u>IFRS 17 quantitative and qualitative analysis</u>

For an FCT performed under the current accounting standards, the actuary would be expected to provide a quantitative analysis of the insurer's expected statement of financial position and regulatory capital position at the effective date under the base scenario using IFRS 17 and the most recent version of the regulatory capital requirements under the IFRS 17 framework. Depending on the timing of the 2022 FCT process, the actuary may need to use the latest draft if the final version has not yet been released.

An example of a minimally acceptable approach would be to:

- Leverage the quantification of the implications of IFRS 17 completed as part of QIS or additional data calls,
- Update the financial projections at the effective date on a best effort basis, reflecting the most recent version of regulatory capital requirements, and
- Supplement the quantitative analysis by a qualitative discussion of directional impacts of any other material changes since the QIS or data call.

Depending on the circumstances, other considerations for commentary would include a qualitative assessment of directional impacts of IFRS 17 on the base and adverse scenario results beyond the effective date over the forecast period, as well as the potential impact of the new accounting standards on adverse scenarios design.

<u>Timing of 2022 FCT report</u>

Quantitative impact studies, the transition readiness test or additional data calls could reveal potential issues or significant impacts not identified in the most recently filed FCT report. If so, it would be appropriate for the actuary to describe these potential issues to the board or chief agent along with any potential mitigating actions, either in the next scheduled FCT report or presentation, or through regular IFRS 17 updates.

The actuary would consider submitting an updated FCT report if an adverse change in the insurer's circumstances since the last investigation may be so significant that to delay reporting to the time of the next scheduled investigation would be imprudent. For example, failure to meet the internal target capital ratio(s), the adoption of a radically different business plan, or major changes in key internal accounting decisions may necessitate the preparation of an immediate report.

An FCT report produced towards the end of the year would be expected to be more complete or reliable in its assessment of IFRS 17.

In any situation where the risks associated with the transition may not be reliably quantified and the actuary is concerned that the transition to IFRS 17 may impact the satisfactory financial condition of the insurer, it would be appropriate for the actuary to explain in the FCT report why a reliable estimate of IFRS 17 transition impacts could not be produced.

In all cases, the expected impacts of IFRS 17 on the testing of the satisfactory financial condition of the company would be reflected in the conclusions of the report.

Additional guidance on the 2022 FCT (modified)

Following feedback from Appointed Actuaries, OSFI, and the AMF, 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.

It is important to note that the threshold for going concern scenarios is the minimum regulatory level, whereas the threshold for solvency scenarios is a higher statement value of assets than liabilities. Given the difference in thresholds between solvency and going concern scenarios, it is possible that satisfactory financial condition would be met against one threshold but not the other.

In some cases, a solvency scenario can meet both satisfactory financial condition thresholds of going concern and solvency scenarios. The actuary would still be interested in performing additional scenarios to further understand other potential risks that may impact the insurer's ability to maintain operations and meet its obligations while meeting or exceeding regulatory minimum levels.

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 stand-alone or integrated scenario.

In these cases, the actuary would be comfortable that the scenario is sufficiently adverse to appropriately test the insurer's ability to meet the thresholds for a satisfactory opinion. The actuary would disclose in the FCT report the reasons for being comfortable with the adversity of the scenario.

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.

Opinion

Following changes to Section 2500 of the SOP, the opinion of the actuary was modified to link to ORSA internal target(s) and explicitly allow for an opinion of "satisfactory subject to" certain conditions. The wording of the FCT opinion included in the SOP should be used by all insurers.

Climate change risk

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.

In OSFI's October 2021 industry letter, they summarize the responses to the discussion paper. The respondent feedback indicated that OSFI's characterization of physical risk should include the risk to public health (morbidity and mortality impacts) due to extreme weather events, poor air quality and increased risk of vector-borne diseases due to changing temperatures, precipitation, and humidity.

In January 2022, the Bank of Canada and OSFI released the results of a pilot project launched in late 2020 on climate scenario analysis. The final report, *Using Scenario Analysis to Assess Climate Transition Risk*, presents key takeaways, the methodologies used in the pilot to assess climate-related financial risk, and lessons learned to inform and support the broader financial sector going forward.

On the same day, OSFI also released an industry letter announcing that it will be issuing draft guidance for federally regulated financial institutions later this year. The draft guidance will focus on achieving five prudential outcomes: awareness, governance and strategy, risk management, financial resilience, and operational resilience. The industry letter also mentions that OSFI continues to assess whether its regulatory capital framework needs to reflect the climate-related financial risks. In addition, it notes that insurers are expected to "evaluate and measure capital available to protect against material risks, including climate-related financial risks" as part of their ORSA process.

Technology and cyber risk

Technology and cyber risk is an important emerging risk that the actuary could consider as an adverse scenario. Considerations for the development of the scenario could be based on OSFI's *Draft Guideline B-13: Technology and Cyber Risk Management*, further discussed in Section 9 of this educational note and AMF's guideline on *Information and Communications Technology Risk Management*.

In May 2020, the CIA in partnership with the Society of Actuaries and the Casualty Actuarial Society published the joint report *Quantification of Cyber Risk for Actuaries – An Economic-Functional Approach*. The study presents the development of a generic model to quantify cyber risk that can be applied by any organization.

Special considerations due to COVID-19

As the COVID-19 situation continues to evolve, insurers may experience unforeseen financial results due to market conditions and/or additional claim activity. The following excerpts from 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* may also be useful for the development of the base and/or adverse scenarios.

The CIA is active in informing members about COVID-19, through its *Seeing Beyond Risk* website. The COVID-19 Trending section contains analyses, webcasts, links, and articles that are relevant to actuarial practice in the face of the current situation.

OSFI also provides relevant updates through its COVID-19 Measures FAQ which is expected to be updated regularly as the pandemic situation evolves.

5. Considerations for the 2022 Own Risk and Solvency Assessment (ORSA) *(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 (now Financial Condition 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.

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.
- OSFI, Guideline A-4: *Regulatory Capital and Internal Capital Targets*, 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.

IFRS 17 Considerations

The new insurance accounting standard will be effective for fiscal years beginning on or after January 1, 2023.

As discussed in the FCT section, practical IFRS 17 implementation limitations may require the actuary to make approximations to reflect the impact of IFRS 17 in their 2022 ORSA process including producing IFRS 17 financial projections, the setting of internal capital targets and supporting the identification and measurement of risk appetite, risk limits and risk profile.

The general approach actuaries would take in relation to their work is as follows:

- The actuary would make best efforts to produce IFRS 17 financial projections;
- The actuary would clearly identify and describe the IFRS 17-specific assumptions and other aspects of their projections where the modelling decision may materially affect the work; and
- The actuary would test the sensitivity of results to those key decisions and assumptions, and disclose the impact.

6. OSFI *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.

On February 11, 2022, OSFI issued its final *Guideline B-3: Sound Reinsurance Practices and Procedures* which comes into effect on January 1, 2025. In Annex A of the accompanying letter, OSFI presents a summary of key comments received on the *draft revised Guideline B-3* as well as OSFI's responses.

Key changes to the final guideline encourage insurers to better identify and manage risks arising from the use of reinsurance, particularly counterparty risk.

Revisions to the guideline include OSFI's expectations that:

- Reinsurance payments flow directly to a cedant insurer in Canada.
- An insurer should 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.
- 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 final guideline, some insurers may need to adjust aspects of their reinsurance programs. OSFI expects to hold industry information sessions in the coming months to provide additional clarity regarding OSFI's expectations and supervisory approach.

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

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.

On February 11, 2022, OSFI issued its final *Guideline B-2: Property and Casualty Large Insurance Exposures and Investment Concentration* which comes into effect on January 1, 2025. In Annex B of the accompanying letter, OSFI presents a summary of key comments received on the *draft revised Guideline B-2* as well as OSFI's responses.

The final guideline addressed OSFI's expectations 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 final guideline.

Based on the final guideline, some insurers may need to adjust aspects of their reinsurance programs. OSFI expects to hold industry information sessions in the coming months to provide additional clarity regarding OSFI's expectations and supervisory approach.

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

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.

9. OSFI *Draft Guideline B-13: Technology and Cyber Risk Management* (*new*)

On November 9, 2021, OSFI launched a three-month public consultation on *Draft Guideline B-13: Technology and Cyber Risk Management* that applies to all federally regulated financial institutions.

The draft outcomes-based guideline sets out OSFI's expectations for sound technology and cyber risk management across five domains (Governance and Risk Management, Technology Operations, Cyber Security, Third-Party Provided Technology and Cyber Risk, Technology Resilience). Each domain is guided by a desired outcome and related technology-neutral principles that collectively contribute to operational resilience.

As part of the consultation, OSFI asked whether they have struck the right balance between principles and prescriptiveness. In this guideline, OSFI has moved beyond a principles-based approach. In the accompanying letter, OSFI notes that feedback on the fall 2020 discussion paper indicated that some companies want more prescription in implementing best practices particularly in relation to cybersecurity. They also acknowledge that some companies may already exceed a number of the more detailed expectations or find them unnecessarily prescriptive.

When reviewing the draft guideline, companies are encouraged to refer to the annex of the accompanying industry letter as it provides additional context.

OSFI intends to release the final guideline in 2022.

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 FTHBI 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
B2_PC	*Property and Casualty Large Insurance Exposures and Investment Concentration*	01/01/2025
B3_SND	*Sound Reinsurance Practices and Procedures*	01/01/2025
Draft B13	*Technology and Cyber Risk Management*	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*	31/01/2022
guide-depot-releves-trimestiels-supplements-annuels_fr.pdf	*Instructions for Quarterly and Annual Statements (CARLI)* (Available in French only)	01/01/2021

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