Canadian Institute of Actuaries
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EDUCATIONAL NOTE

Guidance for the 2023 Reporting of Capital and Financial Condition Testing for Life and Health, P&C and Mortgage Insurers

April 2023

Guidance for the 2023 Reporting of Capital and Financial Condition Testing for Life and Health, P&C and Mortgage Insurers

Committee on Risk Management and Capital Requirements

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The actuary should be familiar with relevant educational notes. Educational notes are not binding; rather they are intended to illustrate the application of the standards of practice. A practice that an educational note describes for a situation is not necessarily the only accepted practice for that situation nor is it necessarily accepted practice for a different situation. Responsibility for ensuring that work is in accordance with accepted actuarial practice lies with the actuary. As accepted actuarial practice evolves, an educational note may no longer appropriately illustrate the application of standards. To assist the actuary, the CIA website contains a reference of pending changes to educational notes.

Contents

Preamble

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 2023 regulatory capital requirements and financial condition testing (FCT) of life and health, 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 to provide 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.

Process

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

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 the CRMCR and has received final approval for distribution by the AGC on April 11, 2023.

Responsibility of the actuary

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Guidance to members on specific situations

CIA members may consult[1] in confidence with the chair and/or vice-chair on questions relating to the standards of practice (SOP) and educational notes. This dialogue is encouraged; however, such discussions do not constitute a formal opinion as to whether the work in question is in compliance with the CIA SOP.

[1] Rule 13 (excerpt): "In order to foster education amongst members, thereby fulfilling the profession's responsibility to the public, a member who has a question about the spirit or intent of the standards of practice, or of generally accepted actuarial practice when no standards exist, may consult in confidence with the chair (or vice-chair) of a designated council… or of an appropriate practice committee."

Your feedback

Questions or comments regarding this educational note may be directed to the chair of the CRMCR.

1. General background *(new)*

The actuary would be aware of the following considerations, which could impact regulatory capital, FCT and Own Risk and Solvency Assessment (ORSA) work.

1.1 IFRS 17 and IFRS 9 accounting standards *(new)*

IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2023, and is expected to significantly impact the operations of insurance companies. For many insurers, this also coincides with the implementation date of IFRS 9. The actuary would be aware of the guidance published by the CIA on this topic, which can be found here (login required).

While the majority of IFRS 17 related educational notes have been published in final form, a few are still being updated to reflect IFRS 17. The following upcoming educational notes are particularly relevant for capital modelling work:

- Updated version of the educational note *Duration Considerations for P&C Insurers* (second half of 2023)
- Discount Rate Application Report (spring 2023)
- Updated version of the Educational Note on Life Insurance Capital Adequacy Test (spring 2023)

IFRS 17 guidance directly impacting capital modeling work is also discussed in more details in upcoming sections.

1.2 New Part 8000 on enterprise risk management for Canadian standards of practice *(new)*

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 with this new ISAP. A new Part 8000 on enterprise risk management has been added to the SOP and will be effective June 30, 2023.

2. Life regulatory capital requirements for 2023 *(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.

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.

Each year, OSFI and the AMF consider whether changes are required to improve the risk measures, address emerging issues and encourage improved risk management.

For 2023, the frameworks were updated to define the regulatory capital requirements under IFRS 17, effective January 1, 2023.

OSFI published the LICAT 2023 guideline in July 2022, which replaces the LICAT 2019 guideline.

As noted in OSFI's industry letter, key revisions to the LICAT 2023 guideline include

- adapting the LICAT for IFRS 17 including the use of concepts and measurements of insurance liabilities;
- recalibrating certain elements of the test to minimize industry-wide capital impacts including reducing the base solvency buffer scalar from 1.05 to 1.00;
- introducing a two-year optional volatility measure relevant for the cost of guarantees under IFRS 17 (excluding segregated fund guarantee (SFG) where OSFI is developing a new approach, see Section 8.1 of this educational note);
- incorporating the OSFI advisory supplementary guidance for the treatment of participating insurance issued in November 2020; and
- specifying credit risk requirements in a manner consistent with IFRS 9.

Some of the key changes to the LICAT for IFRS 17, which the actuary would be familiar with, pertain to surplus allowance, negative reserves, contractual service margin, deferred tax assets, unregistered reinsurance, cost of guarantees, and SFG risk.

There were no industry-wide transitional arrangements provided.

Concurrently, the AMF published an updated CARLI 2023 guideline, effective January 1, 2023, reflecting changes due to IFRS 17. The key revisions made to the CARLI guideline are consistent with those made by OSFI.

In January 2023, OSFI posted a communication on its website to document the "2023 Life Insurance Capital Adequacy Test – Adjustments and clarifications." It initially included adjustments and clarifications in the areas of the volatility adjustment, owner-occupied property, cryptoassets and capital composition and limitations. In March, OSFI posted an update for outstanding premiums for branches. This communication will be updated as further items are raised and addressed.

For insurers with an IFRS 17 effective date after January 1, 2023, the LICAT 2019 guideline (and the advisory to the LICAT 2019 guideline providing supplementary guidance for the treatment of participating insurance) or the CARLI 2021 guideline would continue to apply until IFRS 17 is effective.

3. P&C regulatory capital requirements for 2023 *(modified)*

The OSFI and AMF Minimum Capital Test (MCT) 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.[2] 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. Each year, OSFI and the AMF consider whether changes are required to improve the risk measures, address emerging issues and encourage improved risk management.

In July 2022, OSFI published a final MCT 2023 guideline, adapted to the IFRS 17 accounting standard. This is in effect starting from January 2023. Similarly, the AMF published a final AMF MCT 2023 guideline.

Key revisions to the MCT 2023 guideline include:

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[2] 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 Quebec and their applicable MCT.

- adapting it for *IFRS 17 Insurance Contracts*, including the use of concepts and measurements of insurance liabilities, e.g., the new guideline uses “liabilities for incurred claims” instead of “unpaid claims”;
- adjusting requirements in respect of claims liabilities to maintain the overall level of required resources to protect policyholders;
- specifying credit risk requirements in a manner consistent with “IFRS 9 Financial Instruments” terminology; and,
- establishing principles for allocation methods used for capital purposes.

OSFI has been posting on its website various adjustments and clarifications to the 2023 MCT. It will be updated when further items are raised and addressed. Similarly, the AMF has also been publishing on its website various updates to the framework via a document called “Notice relating to the application of the Guideline on Capital Adequacy Requirements.” Some of those clarifications may affect the level of required capital related to the unexpired coverage for reinsurance contracts issued, including any business ceded to the risk sharing pool. For some insurers and reinsurers, those clarifications could mean an increase in required capital and this increase in capital could vary from quarter to quarter. The actuary should understand if there is any seasonality impact on the level of MCT because of those clarifications.

4. Mortgage insurance regulatory capital requirements for 2023 *(modified)*

OSFI updated the “Mortgage Insurer Capital Adequacy Test” (MICAT), effective January 1, 2023, for IFRS 17.

Key revisions to the MICAT 2023 guideline include:

- adapting it for IFRS 17 Insurance Contracts, including the use of concepts and measurements of insurance liabilities, e.g., the new guideline uses “liabilities for incurred claims” and “liabilities for remaining coverage” instead of “unpaid claims” and “premium liabilities,” respectively;
- introducing a capital requirement on the loss components of liabilities for remaining coverage so that the MICAT ratios better reflect the changes in the level of insurance risk during periods when mortgage insurers are under stress;
- specifying credit risk requirements in a manner consistent with “IFRS 9 Financial Instruments” terminology; and
- incorporating the calculations for First-Time Homebuyer Incentive (FTHBI) mortgages specified in the advisory “MICAT Total Requirements for FTHBI Mortgages.”

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.

5. Considerations for the 2023 financial condition testing *(modified)*

5.1 Standards of Practice: Section 2500 *(modified)*

On September 10, 2019, the ASB approved Section 2500 of the SOP, with an effective date of January 1, 2020. No changes to Section 2500 have been made since then.

Prior to performing FCT, the actuary should be familiar with the latest FCT educational note. An updated version of the FCT educational note was published in January 2023. Notable changes versus the prior version include:

- updates to reflect IFRS 17, including guidance on FCT considerations associated with measurement under IFRS 17 and IFRS 17 specific modelling considerations;
- expanded discussion regarding adverse scenario selection and assessment of the percentile ranking of scenarios;
- expanded guidance on the role of going concern scenarios;
- expanded guidance regarding ripple effects and management actions; and
- clarification regarding the requirement to use the wording prescribed in the SOP for the FCT opinion.

Climate-related risks, technology, and cyber risks were added to the major risk categories the actuary would consider for FCT analysis.

5.2 Transition to IFRS 17 *(modified)*

Insurers with an IFRS 17 effective date of January 1, 2023

For insurers with an IFRS 17 effective date of January 1, 2023, the actuary would perform FCT in 2023 using IFRS 17 and associated actuarial standards and regulatory capital guidelines throughout the projection period for all scenarios.

Insurers with an IFRS 17 effective date later than January 1, 2023

For insurers with an IFRS 17 effective date after January 1, 2023, performing FCT using IFRS 17 and associated actuarial standards and regulatory capital guidelines throughout the projection period for both base and adverse scenarios is strongly encouraged. It would also be an acceptable practice to use IFRS 4 accounting standards, actuarial standards and regulatory capital guidelines, together with additional quantitative and qualitative analysis on IFRS 17. An FCT performed under the IFRS 4 accounting standards and supplemented only with a qualitative analysis on IFRS 17 would not be an acceptable practice.

For insurers with an IFRS 17 effective date after January 1, 2023, who perform FCT under IFRS 4 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 regulatory capital requirements under the IFRS 17 framework. For example, for an insurer with a fiscal year ending on October 31, the actuary would be expected to produce, at a minimum, an IFRS 17 statement of financial position and calculate the IFRS 17 MCT, LICAT or MICAT for the opening balance as of November 1, 2023.

An example of a minimally acceptable approach would be to

- leverage the quantification of the implications of IFRS 17 completed as part of quantitative impact studies (QIS), additional data calls or the transition readiness test;
- update the financial projections of the base scenario at the effective date on a best effort basis, reflecting the final 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.

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

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 opinion would be reflected in the conclusions of the report.

Considerations applicable to all insurers

In practice, the actuary may encounter challenges in preparing financial projections reflecting IFRS 17 and updated capital requirements for the 2023 process. Examples of potential challenges may include the following:

- 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. For example, premium volume forecasts provided by the business may only be on a written and earned basis whereas the split between premium received and to be received needs to be determined by the actuary.

As such, FCT under IFRS 17, including any associated quantitative analysis, would be performed on a best-efforts basis using approximations where appropriate to address data and model limitations as well as working assumptions for guidelines and internal decisions that may not be final at the time of the FCT analysis. Approximations and working assumptions would be described in the report with focus on areas of material sensitivity in relation to the FCT results.

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

5.3 Recent events *(new)*

The actuary would stay current with events that can impact the insurer’s financial position and reflect these in FCT work when relevant. The following excerpts from Section 2500 of the SOP provide guidance on the topic:

.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.

Additionally, the following excerpt from OSFI guideline E-15 outlines OSFI's expectations for the consideration of recent events in the FCT work: "An FCT report shall be based on the prior year end financial position or a more recent position. If the FCT report is presented to the board of directors in the second half of the financial year, then it shall include material changes in experience and in financial position up to the period of 90 days before the date of presentation."

Examples of recent events that could impact an insurer's financial position and require further considerations include, but are not limited to:

- the occurrence of large losses or natural catastrophes;
- significant change in claims experience or policyholder behavior;
- significant change in inflation or interest rates;
- significant change in the market value of investments;
- significant changes in the volume and mix of business;
- key court decisions;
- implementation of government policy or regulation;
- the adoption of a radically different business plan; or
- major changes in key internal accounting decisions.

The actuary could use the following process to determine how to reflect a recent event that occurred after the calculation date, but before the report date, in the FCT work:

1. Does the event have a material impact on the company's financial position, or make the base scenario inconsistent or unrealistic or potentially impact the actuarial opinion? For example, this could include a material decrease in the value of investments, a natural catastrophe with significant material financial impact or a significant deterioration in claims experience.
    a. If it does, then the actuary would reflect the recent event in the base scenario by following SOP 2520.17,[3] and update the adverse scenarios accordingly. This could also require

[3] SOP 2520.17: "The base scenario would be a realistic set of assumptions used to forecast the insurer's financial position over the forecast period. Normally, the base scenario would be consistent with the insurer's business plan. The actuary would accept the business plan's assumptions for use in the base scenario unless these assumptions are so inconsistent or unrealistic that the resulting report would be misleading. The actuary would report any material inconsistency between the base scenario and the business plan."

the actuary to reassess the risk categories that are relevant to the insurer and further update its adverse scenarios by following SOP 2520.20.[4]

b. If not, the actuary would move on to question 2.

2. Does the event have a material impact on the risk profile of the insurer? For example, this could include the emergence of a pandemic or geopolitical tensions with no immediate impact to the insurer's financial position.

    a. If it does, then the actuary would reassess the risk categories that are relevant to the insurer and update its adverse scenarios accordingly by following SOP 2520.20.

    b. If not, the actuary would move on to question 3.

3. Would the management or the board decisions be impacted from being aware of the effect of the event? For example, this could include a large loss material to a portfolio but not to the company, or a natural catastrophe that is large but mostly reinsured.

    a. If they would, then the actuary would comment on the event at a minimum at the board presentation. It would be good practice to document it in the report.

    b. If they would not, then the actuary could omit the recent event from the presentation and report.

5.4 Additional guidance on the 2023 financial condition testing *(modified)*

Standardized stress tests

In 2023, OSFI standardized stress tests on inflation will be required for all insurers. Insurers are expected to submit the standardized stress test results at the same time when filing their FCT reports, and to complete the standardized stress test under the IFRS 17 accounting basis. The packages with instructions were distributed to insurers in early April 2023.

OSFI and AMF FCT templates

OSFI has established a new FCT data collection template requirement, which is applicable to all federally regulated insurers for the 2023 FCT. The FCT data collection template summarizes key financial and other information for the base and adverse scenarios. This template is expected to be submitted to OSFI along with the 2023 FCT report. OSFI delivered the FCT data collection template and instructions to the life insurer's Appointed Actuary in January of 2023. The FCT data collection template reflecting IFRS 17 will be sent to P&C insurer's Appointed Actuary later in 2023.

Separate from the requirement above, the AMF continues to require all insurers to complete the AMF templates. New life and P&C versions of the templates were added to the AMF website in 2023, reflecting IFRS 17.

Climate-related risk

As mentioned in the latest FCT educational note, the impact of climate change is an important emerging risk that the actuary could consider within an integrated adverse scenario. In addition to the FCT educational note, the following sources could be used as guidance to develop such a scenario:

- OSFI's Guideline B-15 "Climate Risk Management"

[4] SOP 2520.20: "The actuary would assess various risk categories and identify those that are relevant to the insurer's circumstances when considering threats to capital adequacy under adverse scenarios."

- Bank of Canada and OSFI's final report on climate scenario analysis "Using Scenario Analysis to Assess Climate Transition Risk"
- OSFI's paper "Navigating Uncertainty in Climate Change"

Technology and cyber risk

As mentioned in the FCT educational note, technology and cyber risk is an important emerging risk that the actuary could consider as an adverse scenario. Additional considerations for the development of the scenario could be based on:

- OSFI's Guideline B-13: "Technology and Cyber Risk Management"
- AMF's guideline on "Information and Communications Technology Risk Management"
- CIA, SOA and CAS joint report *Quantification of Cyber Risk for Actuaries – An Economic-Functional Approach – Executive Summary*

6. Considerations for the 2023 Own Risk and Solvency Assessment *(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. No changes were made to this subsection of the SOP in 2022.

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, 2023
- AMF, "Capital Management Guideline," Section 5: Own risk and solvency assessment, effective May 2015

In addition, there 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

6.1 IFRS 17 considerations *(modified)*

Similar to the discussion in the FCT section (Section 5.2), the requirements to adhere to the IFRS 17 requirements will depend on whether the IFRS 17 effective date for the insurer is on or later than January 1, 2023.

Also, 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 2023 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 IFRS 17-specific assumptions and other aspects of their projections where the modelling decision may materially affect the work.

- The actuary would test the sensitivity of results to those key decisions and assumptions and disclose the impact.

6.2 Recent events *(new)*

The actuary would stay current with events that can impact the insurer's financial position and reflect these in the ORSA process when relevant. The guidance in Section 5.3 can be followed for the consideration of recent events in the ORSA process.

7. Recently approved regulatory guidelines *(new)*

The following regulatory guidelines were released since the publication of the last CRMCR educational note in February 2022. This list does not include the regulatory capital guidelines as these have already been captured above.

- The final revised versions of OSFI Guideline B-2 ("Property and Casualty Large Insurance Exposures and Investment Concentration") and Guideline B-3 ("Sound Reinsurance Practices and Procedures") were released in February 2022 and will come into effect on January 1, 2025.
- The final version of OSFI Guideline B-13: "Technology and Cyber Risk Management" was released in July 2022 and will be effective January 1, 2024. The guideline is organized around three "domains," each of which sets out key components for sound risk management: governance and risk management, technology operations and resilience, and cyber security.
- The final version of the OSFI guideline on "Assurance on Capital, Leverage and Liquidity Returns" was released in November 2022. This guideline sets out OSFI's assurance expectations for the capital returns of all federally regulated insurers and the capital, leverage and liquidity returns of all federally regulated deposit-taking institutions. The effective dates are as follows:
    - All management attestations to be effective beginning in fiscal 2024.
    - All internal audit assurance requirements to be effective beginning in fiscal 2023 (the first internal audit opinion may be provided between fiscal 2023 and 2025 reporting timelines), and to be provided at a minimum once every three years.
    - All external audit assurance requirements to be effective beginning in fiscal 2025.
- OSFI issued an industry letter in December 2022, "Operational resilience key definitions." Until Guideline E-21, "Operational Risk Management" is revised, OSFI expects companies to use the foundational definitions in its industry letter. Some of this could impact the actuary's work on scenario testing. For example, one of the definitions states: "As it pertains to operational resilience, scenario testing would assess the effectiveness of the FRFI's ability to operate within tolerances for disruption in a range of severe but plausible scenarios." The tolerances for disruption are also defined in the industry letter.
- The final revised version of OSFI Guideline D5: "Accounting for Structured Settlements" was released in April 2022 and came into effect on January 1, 2023. This guideline addresses the accounting and reporting by a P&C insurer of an annuity when purchased for a structured settlement contract and of the associated financial liability. The previous guideline was revised to reflect better consistency with IFRS 17, in particular for financial reporting implications of Type 2 structured settlement arrangements.
- The final revised version of OSFI guideline, "IFRS 9 Financial Instruments: Disclosures" was released in April 2022 and came into effect on January 1, 2023. Changes to Section 3.2 Annual

Disclosures for Property & Casualty Insurers reflect updated references and terminology to ensure it is clear and consistent with IFRS 17.

- For insurers with cryptoasset exposures, OSFI published an advisory on the interim capital treatment for cryptoasset exposures in August 2022, effective at the beginning of an insurer's fiscal Q2 2023 reporting period, with earlier adoption encouraged. The AMF launched a consultation on its draft guideline on the capital and liquidity requirements for cryptoasset exposures in September 2022 (The draft guideline is in French only.) The guideline goes into effect on June 1, 2023.

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.

8. Upcoming regulatory guidelines *(new)*

Based on OSFI's revised annual risk outlook (ARO) issued in October 2022, additional guidelines are expected to be released in the first half of 2023. This would include:

- Final Guideline B-15 on Climate Risk Management (released)
- Final Guideline B-10 on Third Party Risk Management (Q1 2023)
- Draft Culture Risk Guideline (Q1 2023)
- Consultative document on standalone capital framework for large internationally active banks and insurance companies (Q1 2023)
- Draft Revised Guideline E-21 on Operational Risk Management with revisions focusing on operational resilience while reinforcing operational risk management (Q2 2023)
- Draft Revised Guideline E-23 on Model Risk Management (Q2 2023)

OSFI is expected to issue semi-annual risk outlooks in April 2023 and October 2023. Actuaries would refer to the OSFI website for additional communications as they become available.

8.1 2025 segregated fund guarantee capital changes *(new)*

For life insurers with SFG business, OSFI and the AMF have conducted a series of QIS exercises to develop a new standard approach to determine capital requirements for SFG risk to replace the current method.

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). In the interim period, the current method for the capital treatment of SFG risk has been retained, updated to accommodate IFRS 17.

For the purposes of the FCT, we recommend that companies perform their projections for SFG business using the capital treatment in current LICAT guideline.

For the 2025 SFG capital framework, OSFI and the AMF launched a consultation in February 2023 on the draft methodology for determining capital requirements for SFG risk. This will be QIS 6.

Appendix A: OSFI documentation

Guidelines and advisories

Filename	Title	Effective Date
LICAT 2023	Life Insurance Capital Adequacy Test	01/01/2023
LICAT20_adj	2023 Life Insurance Capital Adequacy Test – Adjustments and clarifications	01/01/2023
MCT 2023	Minimum Capital Test	01/01/2023
MICAT 2023	Mortgage Insurer Capital Adequacy Test	01/01/2023
A4	Regulatory Capital and Internal Capital Targets	01/01/2023
E19	Own Risk and Solvency Assessment	01/01/2018
B5	Asset Securitization	01/01/2019
B21	Residential Mortgage Insurance Underwriting Practices and Procedures	01/03/2019
B2	Property and Casualty Large Insurance Exposures and Investment Concentration	01/01/2025
B3	Sound Reinsurance Practices and Procedures	01/01/2025
Draft B-10	Third-Party Risk Management Guideline	TBD
B13	Technology and Cyber Risk Management	01/07/2022
B15	Climate Risk Management	Fiscal year-end 2024 or 2025
E-23	Enterprise-Wide Model Risk Management for Deposit-Taking Institutions	01/09/2017
Draft E25	Internal Model Oversight Framework	TBD
Advisory	Interim arrangements for the regulatory capital and liquidity treatment of cryptoasset exposures	Q2 2023
Advisory	Mortgage Insurer Capital Adequacy Test Revisions for Variable Rate Mortgages	28/09/2022
Advisory	Revised Guidance for Companies that Determine Segregated Fund Guarantee Capital Requirements Using an Approved Model	01/01/2023
Report	Annual Risk Outlook published on 21/10/2022	

Filing instructions and reporting requirements

Filename	Title	Effective Date
life-rr	Reporting Requirements for Life Insurance Companies and Fraternal Benefit Societies	01/01/2023
pc-rr	Reporting Requirement for Property and Casualty Insurance Companies	01/01/2023
mi-rr	Reporting Requirement for Federally Regulatory Mortgage Insurers	01/01/2023
LICAT_inst	2023 Life Insurance Capital Adequacy Test – Filing Instructions	01/01/2023
LICAT_dscreq	Life Insurance Capital Adequacy Test Public Disclosure Requirements	31/12/2018
kmr_lf	Key Metrics Report – Life Insurers Instructions	
kmr_pc	Key Metrics Report – P&C insurers	

Appendix B: AMF documentation

Guidelines

Filename	Title	Effective Date
ld_escap_01-2023_an_pf.pdf	Capital Adequacy Requirements Guideline –Life and Health Insurance	01/01/2023
ld_tcm_01_2023_pf_an.pdf	Guideline on Capital Adequacy Requirements – Property and casualty insurance	01/01/2023
ld_tcm_oar_01_2023_pf_an.pdf	Capital Adequacy Requirements – Guideline – Self-Regulatory Organizations	01/01/2023
ld_tcm_ur_01_2023_pf_an.pdf	Capital Adequacy Requirements – Guideline – Reciprocal Unions	01/01/2023
ld_gestion_capital_an.pdf	Capital Management Guideline	01/05/2015

Filing instructions and reporting requirements

Filename	Title	Effective Date
guide_actuaire_esf_vie__an.pdf	Actuary's Guide regarding the Financial Condition Testing report for Insurers of Persons	01/03/2023
actuary_guide_pc_fct.pdf	Actuary's guide regarding the Financial Condition Testing report of P&C Insurers	01/03/2023
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
223010	Educational note: Financial Condition Testing	12/01/2023
219113	Final Standards – Revisions within the Practice-Specific Standards for Insurance (Section 2500 and Part 1000)	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 (Updated version coming spring 2023)
221023	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
223001	Statement from the CIA Board on Climate-Related Risk	01/01/2023
223041	Memorandum: Final Standards – Establishment of Enterprise Risk Management (ERM) Practice-Specific Standards for Consistency with ISAP 6	08/02/2023
Rp222010	15th Annual Survey of Emerging Risks – Key Findings	24/01/2022
221035	Practice Resource Document: Actuarial Aspects of Enterprise Risk Management	31/03/2021
221124	Practice Resource Document: Risk Appetite	12/11/2021

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