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# Guideline Impact Analysis Statement

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## Life Insurance Capital Adequacy Test Public Disclosure Requirements

**Date:** March 2018

### I. Background

The Life Insurance Capital Adequacy Test (LICAT) guideline replaced the Minimum Continuing Capital and Surplus Requirement (MCCSR) Guideline effective January 1, 2018. The transition to LICAT provides an opportunity to improve the measurement and disclosure of risks associated with insurance activities. In addition, disclosures that are simple, useful and comparable can encourage prudent behaviour through market discipline.

### II. Problem Identification

Current regulatory capital public disclosure practice varies among insurance companies in Canada. Therefore, consistent disclosure of LICAT solvency risk would help to improve understanding of insurers' solvency strength by highlighting simple, useful and comparable solvency disclosures.

### III. Objectives

Public disclosure of solvency risk is in keeping with leading international best practices to improve transparency and encourage prudent behaviour through market discipline. Such disclosures promote good governance and improve oversight of risk taking activities.

OSFI's desire to improve transparency of life insurance company activities was outlined and broadly communicated in OSFI's *Life Insurance Regulatory Framework* issued in 2012. To achieve this objective, the Framework stated that OSFI will promote enhancements to the regulatory framework for life insurance companies through information disclosures to support the revised regulatory capital requirement.

### IV. Consultations

In July 2017, the guideline was published in draft form on the OSFI website for a three-month public consultation period. Comments received were taken into consideration in drafting the final guideline. All material comments have been summarized in a non-attributed format and include a summary of how each comment was addressed.



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## **V. Recommendations**

OSFI recommends that the LICAT public disclosure requirements should be:

- a) Implemented for the fiscal year end 2018 reporting with subsequent disclosures aligning with an insurance company's financial reporting in Canada.
- b) Comprised of quantitative and qualitative information to provide market participants with a broader picture of an insurance company's capital and risk position and promote market discipline.
- c) Aligned with the filing of the life insurer's annual report and published on the insurance company's website.

## **VI. Implementation**

OSFI expects federally regulated life insurers to apply the guidance at least annually.