Reference: Guideline for Federally Regulated Insurers

December 14, 2017

To: Federally Regulated Insurers[1]

Subject: Guideline E-19: *Own Risk and Solvency Assessment*, Guideline A-4: *Regulatory Capital and Internal Capital Targets* and ORSA Key Metrics Report

OSFI is issuing final versions of the following documents, which have been updated to reflect the introduction of Guideline A: *Life Insurance Capital Adequacy Test* (LICAT) for life insurers, to reflect minor updates for property and casualty (P&C) insurers, and to improve overall clarity:

- Guideline E-19 - *Own Risk and Solvency Assessment* (ORSA)
- Guideline A-4 - *Regulatory Capital and Internal Capital Targets*
- Key Metrics Report (KMR) and associated instructions for life and P&C insurers.

Updates were reflected in draft versions of these documents that were published in July 2017 for consultation. The comment period ended on August 18, 2017. We thank all those who provided comments, a summary of which is attached to this letter.

Questions may be directed to Henri Boudreau, Managing Director, Insurance Capital at henri.boudreau@osfi-bsif.gc.ca or by telephone at (613) 998-7478.

Sincerely,

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Assistant Superintendent
Regulation Sector

Attachment

[1] Insurers refers to all federally regulated insurers, including Canadian branches of foreign life and property and casualty companies, fraternal benefit societies, regulated insurance holding companies and non-operating insurance companies.

Appendix 1 – Summary of Public Consultation Comments and OSFI Responses

Comment	OSFI Response
1) Guideline A-4, Section on Regulatory Capital We note with particular interest the introduction of the new term “Capital Available” into Guideline A-4. This term, without further delineation and explanation, could be confusing including its application to Total and Core Ratios.	Unlike the MCCSR, the numerator of the LICAT ratios includes elements other than capital to cover an insurer’s risks (i.e.: Surplus Allowance and Eligible Deposits). To clearly illustrate this construct and to differentiate with terms defined in the LICAT and MCT, the documents have been updated to refer to “Capital Resources” for domestic insurers and “Margin Resources” for branches.
2) Guideline A-4, Section on Regulatory Capital In relation to all three subsections of this section (i.e. Minimum, Supervisory, and Regulatory levels), it would be helpful to clarify the determination of “Capital Available” for both Total and Core Ratio purposes. Under theses subsections, the quantum and application of Capital Available will differ for the Total and Core ratios.	We have clarified the guideline by adding a table summarizing the components of regulatory capital and highlighting the differences between P&C and life insurers and between the Total and Core ratios. The terms used in the table align with those defined in the capital guidelines and used in the KMR, improving clarity as well as consistency.
3) KMR filing When will the KMR be integrated in the Regulatory Return System (RRS)? Should it continue to be submitted via email to Lead Supervisors?	Starting in 2018, the KMR (excel file) may be submitted via the RRS as an unstructured filing. OSFI will be integrating the official structured KMR return within RRS effective Q1 2019.
4) KMR for Life Insurers The “Diversification Credit” line should be just before the LICAT Base Solvency Buffer line since life insurers may consider other risks as diversifiable under their ORSAs.	An insurer may, in their ORSA, consider some risks diversifiable even when these are not in the regulatory tests. Although no changes have been made to the KMR form, the KMR instructions were edited to specify that an insurer may, in their ORSA, apply and report a diversification credit related to these other risks on the Life KMR. A similar change was not deemed necessary for the P&C KMR due to the current placement of the line for the credit.

Comment	OSFI Response
5) KMR for Life Insurers The LICAT scalar is only reflected in the total line, resulting in the sum of LICAT percentages for various risks at only 95%. The scalar should be explicit, on a separate line.	To avoid confusion, we have removed reference calculations where a comparison to regulatory capital is not useful for KMR purposes. For life insurers, the scalar remains within the Base Solvency Buffer row, for consistency with the LICAT regulatory returns.
6) KMR for Life Insurers We note that a reconciliation item is always needed for ORSA Tier 2 vs. LICAT Tier 2 capital levels even if the company sets their ORSA Tier 2 capital to be equal to LICAT Tier 2 capital. We recommend modifying the KMR return.	The KMR for life insurers has been amended to allow for the input of ORSA Core and Non-Core capital (margin) resources. A breakdown of all elements included therein should be inputted as reconciling items, as necessary. This allows more flexibility for insurers to include various elements calculated as part of the ORSA process, rather than limiting these to LICAT related elements and concepts. KMR instructions have been updated accordingly.