



Reference: Guidelines A:
Life Insurance Capital Adequacy Test
Minimum Capital Test

June 27, 2018

To: Federally Regulated Life and Property and Casualty Insurers

Subject: LICAT and MCT 2021 Review for IFRS 17

International Financial Reporting Standard (IFRS) 17 *Insurance Contracts* will become effective for annual periods beginning on or after January 1, 2021, replacing its predecessor IFRS 4. The Office of the Superintendent of Financial Institutions (OSFI) is working with the industry and other Canadian regulators to revise its existing guidance to support a robust implementation by institutions.

This letter communicates OSFI's plan to implement IFRS 17 in its insurance capital guidelines: Guideline A – *Life Insurance Capital Adequacy Test* (LICAT) for life insurers, and Guideline A – *Minimum Capital Test* (MCT) for property and casualty (P&C) insurers.¹

Implementing IFRS 17 requires a number of revisions to the insurance capital guidelines to align them with the accounting standard. In developing revisions for 2021, OSFI intends to maintain capital frameworks consistent with current capital policies and to minimize potential industry-wide capital impacts.

For life insurers with segregated fund guarantee (SFG) business, the current methodology for determining associated capital requirements will be maintained in 2021. Development work will continue on a new standard approach for determining capital requirements for SFG business, for implementation after 2021.

To revise the 2021 LICAT and MCT guidelines for IFRS 17, OSFI will work with the life and P&C insurance industries through a consultative process, including capital impact assessments. Depending on the results of the assessments, OSFI may adjust certain aspects of the capital tests or introduce transitional measures to alleviate the capital impact.

¹ For the purpose of this letter, “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. OSFI is having separate discussions with the mortgage insurers on the implementation of IFRS 17.



OSFI will consult directly with life and P&C insurers and affected stakeholders. Timelines for completing key milestones include:

September 2018	June 2019	June 2020
Distribute directly to insurers and selected stakeholders for comment: <ul style="list-style-type: none">• Draft 2021 LICAT / MCT guidelines• Questionnaire and data collection exercise	Distribute directly to insurers and selected stakeholders: <ul style="list-style-type: none">• Near-final 2021 LICAT / MCT guidelines• Draft regulatory capital forms• Quantitative Impact Study to assess insurers' LICAT / MCT ratios, on a best-efforts basis	<ul style="list-style-type: none">• Publish final 2021 LICAT / MCT guidelines• Finalize regulatory capital forms

Although OSFI is minimizing the extent of capital policy changes for 2021, it will continue to review the capital guidelines on a regular basis after 2021. As appropriate, OSFI will adjust the guidelines to reflect new information and insight on risks and their measurement.

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Sincerely,

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