



Reference: Guideline A: Life Insurance
Capital Adequacy Test

November 26, 2020

To: Federally Regulated Life Insurers¹

Subject: New Approach for Determining Regulatory Capital Requirements for Segregated Fund Guarantee (SFG) Risk

OSFI is developing a new approach to determine capital requirements for SFG risk, which will reflect the International Financial Reporting Standard 17 – *Insurance Contracts* (IFRS 17) that will become effective on January 1, 2023. The purpose of this letter is to provide additional details on the development of the approach.

Current regulatory capital requirements for SFG risk are determined using an approach that was implemented in the early 2000s. Here, requirements are calculated using a factor-based methodology or, if approved for use by OSFI, an insurer’s own internal model. The approach is based on calibrations that were developed several years ago and relies on IFRS 4 (i.e. the Canadian Asset Liability Method or CALM). Also, over the years, SFG product offerings have evolved and, in some cases, are not entirely addressed with the current methodology.

The new approach is being designed to address these issues. Under the new approach, capital requirements will be calculated by applying shocks to SFG liabilities. Internal models that were previously approved for use by OSFI to calculate SFG capital requirements will no longer be permitted for this purpose, once the new approach is implemented.

The new approach will become effective January 1, 2023 and will replace the current Chapter 7 of the Life Insurance Capital Adequacy Test (LICAT) guideline.² At that time, other existing OSFI guidance (e.g. Advisories) on the determination of SFG capital requirements will be deleted or modified, as appropriate.

OSFI has begun work on the development of the new approach. Remaining key steps in the development process are:

¹ For the purposes of this letter, “federally regulated life insurers” or “insurers” refers to all federally regulated life insurance companies, including Canadian branches of foreign life companies, fraternal benefit societies, regulated insurance holding companies and non-operating insurance companies.

² Consequential amendments may be made to other areas of the test.



December 2020	September 2021	November 2021 - March 2022	August 2022
Distribute directly to insurers with SFG business for comment: <ul style="list-style-type: none"> • Draft of the approach; and, • Quantitative impact study and sensitivity tests, with accompanying instructions. 	Publish on OSFI’s website for public consultation: <ul style="list-style-type: none"> • Draft approach (i.e. revised Chapter 7 of the LICAT Guideline); • Draft LICAT forms related to SFG; and, • Quantitative impact study and sensitivity tests, with accompanying instructions. 	Potential directed consultations and data calls for calibration and transition purposes.	Publish on OSFI’s website: <ul style="list-style-type: none"> • Final 2023 LICAT Guideline, <i>including revised Chapter 7 with the final approach</i>; and, • Final regulatory capital forms, <i>including forms related to SFG</i>.

The development of the new approach is being undertaken separately from updates to other elements of the LICAT for IFRS 17 – the timelines for this work were communicated in OSFI’s September 30, 2020 [letter](#). As indicated above, one objective of the new standard approach is to improve the risk sensitivity of SFG capital requirements. Accordingly, unlike updates being made to other areas of the LICAT framework for IFRS 17, for SFG risk, the new approach will include changes in OSFI’s capital policies. Consideration will be given at a later date to what, if any, specific transition or other measures will be introduced concurrent with the implementation of the new approach.

Questions regarding this letter should be directed to Lisa Peterson, Managing Director, Life Insurance Capital (lisa.peterson@osfi-bsif.gc.ca).

Sincerely,

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