Adjustments and clarifications

Title	Minimum Capital Test 2024 – Adjustments and clarifications
Category	Capital Adequacy Requirements
Date	December 14, 2023
Sector	Property and Casualty Companies

This communication sets out adjustments and clarifications to the Minimum Capital Test Guideline (MCT) 2024 and associated instructions and forms since their publication in October 2023. Items reflected on this list will be incorporated into the PC4 Instructions and may also be incorporated into a future version of the MCT guideline, as appropriate.

Summary of adjustments and clarifications

Any questions should be addressed to MCT-TCM@osfi-bsif.gc.ca.

1. Unexpired coverage for reinsurance contracts held (page 40.05)

OSFI remarks

In response to questions and comments received, for greater clarity and to promote consistency, OSFI is adjusting formulas 1 and 2 for the determination of the unexpired coverage for reinsurance contracts held in section 4.2.2.2 of the MCT 2024. These adjustments also impact formulas 1 and 2 in the MCT 2023. The adjustments to the unexpired coverage for reinsurance contracts held in the MCT 2024 and MCT 2023 take effect immediately.

Adjustments and pages impacted in the PC4 Instructions

Page 40.05

Formula 1 in section 4.2.2.2 is revised as follows:

1. For groups of reinsurance contracts held that are measured using the GMM to determine the ARC:

   Unexpired coverage for reinsurance contracts held (GMM) =
   (estimate of future cash flows for reinsurance contracts held (excluding premium and reinsurance commission cash flows that are due[38a]) + estimate of future cash flows for future reinsurance contracts held), adjusted for time value of money

38a Premiums and reinsurance commission cash flows on risk attaching proportional reinsurance contracts held are considered due, therefore are zero.

The estimate of future cash flows does not include the risk adjustment for non-financial risk. Estimates of future cash flows for reinsurance contracts held and future reinsurance contracts held refer to the portion of these contracts that covers the unexpired portion of underlying insurance contracts issued. These cash flows include expected losses recoverable, net of expected future reinsurance costs.

Formula 2 in section 4.2.2.2 is revised as follows:

2. For groups of reinsurance contracts held that are measured using the PAA to determine the ARC:

Unexpired coverage for reinsurance contracts held (PAA) =

[(asset for remaining coverage excluding loss recovery component

+ unamortized reinsurance commission39)

+ premiums to be paid40 for reinsurance contracts held

+ expected premiums payable for future reinsurance contracts held] × ELR41

− (expected premiums payable42 for reinsurance contracts held net of associated reinsurance commissions receivable43 + expected premiums payable for future reinsurance contracts held net of associated expected reinsurance commissions receivable)

39 The reinsurance commission is the ceding commission (or portion of the ceding commission) paid by the reinsurer to the ceding insurer that is not contingent on claims of the underlying contracts and generally includes a total provision for broker/agent commissions, premium taxes, and other acquisition and servicing expenses.

40 Whether outstanding or not yet due.

41 The ELR for the unexpired coverage for reinsurance contracts held (PAA) in section 4.2.2.2 is the ELR for the ceded calculations that relates to the portion of these contracts covering the unexpired portion of underlying insurance contracts issued, and is not necessarily the same as the ELR for the gross calculations in section 4.2.2.1 for the unexpired coverage for insurance contract issued (PAA).

42 This means not yet due. Premiums payable and associated reinsurance commissions receivable on risk attaching proportional reinsurance contracts held are considered due, therefore the amount of expected premiums payable for these contracts is zero.

43 Idem.

Unamortized reinsurance commission is equal to the amount of reinsurance commission used for the measurement of the asset for remaining coverage (ARC). Unexpired coverage for reinsurance contracts held (PAA) excludes any risk adjustment for non-financial risk and may be adjusted for the time value of money.