

Memorandum

To: All Fellows, Affiliates, Associates and Correspondents of the Canadian Institute of Actuaries

From: Geoff Guy, Chairperson
Actuarial Standards Board

Denise Lang, Chairperson
Committee on Risk Management and Capital Requirements

Date: October 30, 2007

Subject: **Technical Changes to the DCAT Standards of Practice**

Document 207090

BACKGROUND

A review of the Educational Note on Dynamic Capital Adequacy Testing (DCAT) was initiated by the Committee on Property and Casualty Insurance Financial Reporting in 2003. Life representation from the Committee on Risk Management and Capital Requirements was added in 2004. Updates to the educational note were required to ensure consistency with already enacted changes to the Standards of Practice, changes to the applicable regulatory capital measures for P&C insurance companies, the emerging use of stochastic techniques, and results of the DCAT survey that provided insights into reporting to management and best practices. The revised educational note is expected to be published in 2007.

ISSUES AND DESIRED OUTCOMES

As a consequence of the update to the DCAT educational note, further desired changes to the Standards of Practice were identified.

The first change relates to the DCAT risk categories. The risk categories were reviewed and modified during the review of the educational note, which necessitates changes to ensure consistency in the description of the risk categories in the Standards of Practice.

Several desired changes to the Standards of Practice were also identified to ensure that the standards remain representative of good industry practice, do not set unreasonable burdens on the actuary, and improve clarity on testing and reporting requirements.

In addition, these changes also revise the P&C projection period to three years, and make minor changes to several other paragraphs.

PROCESS AND TIMETABLE

The changes pertain to the Practice-Specific Standards for Insurers and input has been obtained from the Committee on Property and Casualty Insurance Financial Reporting.

Draft technical changes to the Standards of Practice were distributed to members on April 13, 2007, with a comment deadline of June 1, 2007.

A summary of the comments received, and actions taken are:

- a) minor changes in the Property and Casualty section to remove a redundancy in the use of “investment” and “investment risk”, and to revise “loss” to “claim”
- b) concern was raised with the change that granted exemption from modeling regulatory action. This was removed in the final version, which means, other than minor edits, this section is not changed from the current Standards of Practice.

In accordance with the Institute’s Policy on Due Process for Approval of Standards of Practice, the changes have received final approval for distribution to members by the Actuarial Standards Board on October 17, 2007.

The revised standard will be effective November 1, 2007 and will apply to DCAT reports prepared after that date which are based on fiscal years ending October 31, 2007 and later.

GG, DL