

**EXAM 6 – CANADA, SPRING 2016**

24. (2.25 points)

a. (0.75 point)

Briefly describe three similarities between DCAT and ORSA.

b. (1.5 points)

Describe three differences between DCAT and ORSA.

**CONTINUED ON NEXT PAGE**



## SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 24	
TOTAL POINT VALUE: 2.25	LEARNING OBJECTIVE: C2
SAMPLE ANSWERS	
<b>Part a:</b> 0.75 point	
<p>Possible answers include the following:</p> <ul style="list-style-type: none"><li>• Both involve the identification of material risks</li><li>• Both are subject to periodic objective review</li><li>• Both must be filed with the regulator</li><li>• Both include scenario/stress testing</li><li>• Both serve as tools to enhance the understanding of the interrelationship between risk profile and capital needs</li><li>• There must be a report for both</li><li>• Both are forward looking and based on the insurer's business/strategic plan over the business planning horizon</li><li>• Both must be prepared at least annually, and more frequently if circumstances warrant it</li><li>• Both can be used to identify corrective management actions</li><li>• Both can be used to develop and implement risk mitigation strategies</li><li>• Both recognize enterprise-wide risks</li><li>• Both involve a risk-based assessment</li></ul>	
<b>Part b:</b> 1.5 points	
<p>Possible answers include the following:</p> <ul style="list-style-type: none"><li>• The DCAT must be prepared by the appointed actuary and include a statement of actuarial opinion, whereas ORSA is management responsibility (often with significant input from the actuary)</li><li>• The ORSA must be implemented/performed in accordance with regulatory guidelines, whereas the DCAT must be performed in accordance with CIA standards of practice</li><li>• The scope of ORSA is larger than that of DCAT's; it includes Board oversight and senior management responsibility, the ERM process, monitoring, internal controls, etc. DCAT focuses on the quantitative aspect of ORSA.</li><li>• ORSA contains a large qualitative component whereas DCAT is mostly quantitative</li><li>• DCAT alternate assumptions must be determined in the 95<sup>th</sup> to 99<sup>th</sup> percentile range, whereas for ORA the magnitude of scenarios/assumptions is tailored to risk appetite</li><li>• DCAT is more prescriptive process; in the ORSA the process to determine the internal target is more flexible (e.g. a stochastic model can be used, time horizon is more flexible, confidence level is not prescribed)</li><li>• In DCAT the opinion states whether the financial condition is satisfactory if it meets a minimum set of criteria; in contrast the ORSA is process to ensure appropriate enterprise risk management</li></ul>	



## SAMPLE ANSWERS AND EXAMINER'S REPORT

### EXAMINER'S REPORT

The candidates were expected to demonstrate understanding of the similarities and differences between DCAT and ORSA. Most candidates demonstrated a strong understanding of the similarities but few candidates were able to articulate three differences. Few candidates received full marks for this question.

This question was challenging because it required comparing and contrasting two different concepts.

#### Part a

- Candidates were expected to describe three similarities between DCAT and ORSA.
- Most candidates received full credit for this part.
- Some candidates listed two responses that were essentially the same but reworded differently – in such instances, only partial credit was awarded. For example, answering that both are used to assess the adequacy of capital and that for both the company would look at how the material risks would impact capital would count towards the identification of one similarity.

#### Part b

- Candidates were expected to describe three differences between DCAT and ORSA.
- Few candidates received full credit on this part and generally candidates struggled to describe differences between DCAT and ORSA.
- Most point deductions came from:
  - Describing fewer than 3 differences
  - Descriptions that were too brief or incomplete An example of an incomplete description is: "DCAT and ORSA use different time frames for projections". This response received partial credit only; to receive full credit, the graders would have expected more detail on the difference in time horizons or comments on which of DCAT or ORSA has more flexibility with regards to the time horizon used in the analysis.
-