

**EXAM 6 – CANADA, FALL 2017**

21. (2.25 points)

a. (0.75 point)

Briefly describe three similarities between DCAT and the Own Risk and Solvency Assessment (ORSA).

b. (1.5 points)

Describe three differences between DCAT and ORSA.

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**EXAM 6C FALL 2017 SAMPLE ANSWERS AND EXAMINER'S REPORT**

<b>QUESTION 21</b>	
<b>TOTAL POINT VALUE: 2.25</b>	<b>LEARNING OBJECTIVE(S): C2</b>
<b>SAMPLE ANSWERS</b>	
<b>Part a: 0.75 point</b>	
<p><u>Sample 1</u></p> <ul style="list-style-type: none"> <li>• Both involve scenario/stress testing</li> <li>• Both are submitted to regulators</li> <li>• Both involve identification of material risks</li> </ul> <p><u>Sample 2</u></p> <ul style="list-style-type: none"> <li>• Both must be done annually</li> <li>• Both are forward looking to mitigate risk/threats to company</li> <li>• Both are sent to regulators for financial health of company</li> </ul> <p><u>Sample 3</u></p> <ul style="list-style-type: none"> <li>• DCAT and ORSA both consider various scenarios to identify risks</li> <li>• DCAT and ORSA both assess the capital required related to risk</li> <li>• DCAT and ORSA both need to be regularly report to Board (annually)</li> </ul> <p><u>Sample 4</u></p> <ul style="list-style-type: none"> <li>• Both include stress testing and adverse scenarios</li> <li>• Both are able to identify material risks to the company</li> <li>• Both identify corrective actions to mitigate risks</li> </ul> <p>Other solutions considered:</p> <ul style="list-style-type: none"> <li>• A report is prepared for each of them</li> </ul>	
<b>Part b: 1.5 points</b>	
<p><u>Sample 1</u></p> <p>Difference 1</p> <ul style="list-style-type: none"> <li>• DCAT follows CIA standards of practice</li> <li>• ORSA follows OSFI guideline</li> </ul> <p>Difference 2</p> <ul style="list-style-type: none"> <li>• DCAT is AA responsibility</li> <li>• ORSA is management's responsibility</li> </ul> <p>Difference 3</p> <ul style="list-style-type: none"> <li>• DCAT only contains quantitative analysis</li> <li>• ORSA has both quantitative and qualitative analysis</li> </ul> <p><u>Sample 2</u></p> <ul style="list-style-type: none"> <li>• DCAT covers only the prescribed risk whereas ORSA covers all relevant risks to the enterprise</li> <li>• DCAT is to illustrate that the entity's financial condition is satisfactory (MCT) whereas ORSA is to set the Internal Target Capital relating to all material risks</li> </ul>	

## EXAM 6C FALL 2017 SAMPLE ANSWERS AND EXAMINER'S REPORT

- DCAT is mostly quantitative whereas ORSA has more qualitative components

### Sample 3

- DCAT focus on quantitative aspect of adverse impact. ORSA captures the whole assessment including qualitative analysis, company governance and internal controls.
- Actuaries are responsible for DCAT model and final ultimate responsibility of ORSA falls into Board of Directors/management level.
- DCAT has clear analysis threshold. ORSA has no standardized quantitative threshold but more subject to overview enterprise-wide perspective including business plan, strategy and long-term/short-term financial capital plan.

### **EXAMINER'S REPORT**

Candidates were expected to understand and describe the similarities and differences between DCAT and ORSA.

#### **Part a**

Candidates were expected to briefly describe three similarities between DCAT and ORSA.

Common mistakes include:

- Describing a similarity that is actually a difference such as “both are based on company’s own risk profile”
- Describing two different similarities that are alike such as:
  - Both assess the financial soundness of insured
  - Both use insurance test scenarios to examine capital adequacy/solvencyNo point was given to the second occurrence of a repeated answer.
- Identifying less than three similarities.

#### **Part b**

Candidates were expected to describe three differences between DCAT and ORSA.

Common mistakes include:

- Describing less than three differences.
- Not providing enough of a description of the identified difference or only discussing one of the two processes (i.e., “DCAT needs to be signed by Appointed Actuary” or “ORSA is more tailored to reflect company’s nature/complexity”).
- Incorrectly describing ORSA as purely qualitative since it contains both quantitative and qualitative aspects.
- Confusing the DCAT description with ORSA and vice versa (i.e., mentioning DCAT is qualitative).