

**EXAM 6 – CANADA, FALL 2017**

24. (2 points)

Identify and briefly describe four purposes of a stress testing program of an insurance company.

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

QUESTION 24	
TOTAL POINT VALUE: 2	LEARNING OBJECTIVE(S): C2
SAMPLE ANSWERS	
<p><u>Sample 1</u></p> <ol style="list-style-type: none"> <li>1- Risk identification and control: All material risks should be identified and interdependencies between risks should be considered.</li> <li>2- Complementary risk assessment tool: Should complement other risk assessment tools. Method used for a risk should depend on the complexity for this risk.</li> <li>3- Improve capital management: The identification of adverse scenarios should help to see in which situations a company could have capital problems and potential solutions.</li> <li>4- Improve liquidity management: The identification of adverse scenarios should help to see in which situations a company could have liquidity problems and potential solutions.</li> </ol> <p><u>Sample 2</u></p> <ol style="list-style-type: none"> <li>1- Risk identification and control: Identify all risks and business areas to have a complete picture of the company.</li> <li>2- Complement other risk management tool: Provide insights about complex quantitative models. Helps to detect vulnerabilities.</li> <li>3- Support capital management: Help to identify adverse events due to financial market or environment changes on financial condition.</li> <li>4- Improve liquidity management: Assess liquidity profile and if liquidity buffers are sufficient in adverse scenarios.</li> </ol> <p><u>Sample 3</u></p> <ol style="list-style-type: none"> <li>1- Risk identification and control: Can detect concentration and interaction within and across risks during stress scenarios which otherwise may be unnoticed.</li> <li>2- Complementary risk perspective: Can be used to validate and verify findings from other risk modeling techniques.</li> <li>3- Improve liquidity management: Can understand payment needs and asset availability during stress scenarios.</li> <li>4- Help capital management: Interactions and concentrations of risk have material impact on capital needs.</li> </ol> <p><u>Sample 4</u></p> <ol style="list-style-type: none"> <li>1- Identification of risk: To make sure you identified material risks that could impact the financial health of the company.</li> <li>2- Support capital management: Understand where the risks are and set the required capital to cover them.</li> <li>3- Complement risks assessment: Complement the other risk assessments at the company and confirm other techniques.</li> <li>4- Improve liquidity management: Make sure assets are liquid enough and that cash flows will allow protecting against liquidity risk.</li> </ol>	

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

### EXAMINER'S REPORT

Candidates were expected to demonstrate an understanding of the purposes of a stress testing program within an insurance company.

Common mistakes include:

- Identifying less than four purposes.
- Not briefly describing purposes or rephrasing the purpose identified without adding any additional information, such as:
  - Identify material risk: The stress testing program helps to identify significant risks.