

EXAM 6 – CANADA, SPRING 2018

20. (1.5 points)

a. (0.5 point)

Contrast the forecast period for the DCAT and for the Own Risk and Solvency Assessment (ORSA).

b. (0.5 point)

Contrast the capital requirement for operational risk in the ORSA and in the MCT.

c. (0.5 point)

Explain how an insurance company can use stress testing to set its internal capital target.

CONTINUED ON NEXT PAGE

EXAM 6C SPRING 2018 SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 20	
TOTAL POINT VALUE: 1.5	LEARNING OBJECTIVE(S): C2
SAMPLE ANSWERS	
Part a: 0.5 point	
<u>Sample 1</u>	
<ul style="list-style-type: none"> • DCAT is ≥ 3 years, whereas for ORSA, the forecast period is determined depending on the period that best captures the business plan horizon of the company 	
<u>Sample 2</u>	
<ul style="list-style-type: none"> • DCAT is ≥ 3 years, where for ORSA it would be 3 to 5 years 	
<u>Sample 3</u>	
<ul style="list-style-type: none"> • DCAT forecast period is at least 3 years and long enough to capture the risk and reflect management actions. ORSA forecast period should be reasonably long to assess if the capital of the company is adequate to be able to absorb future losses without falling below the regulatory requirement over multiple years. 	
Part b: 0.5 point	
In MCT, operational risk is based on premium volume and other risks (insurance, market and credit) whereas in ORSA it would be explicitly modeled with other risks faced by the company.	
Part c: 0.5 point	
Use stress testing to identify material risks to company operations and measure their impact on future financial condition based on a set of changing risk factors, corresponding to adverse but plausible events. Relate risks to capital needs to determine the internal capital target.	
EXAMINER'S REPORT	
The candidates were expected to demonstrate understanding of ORSA and DCAT and be able to contrast the key elements between the two concepts.	
Part a	
The candidates were expected to describe the forecast period for DCAT and for ORSA.	
While most candidates were able to describe the DCAT forecast period accurately, common errors involved the forecast period of ORSA, in particular:	
<ul style="list-style-type: none"> • Only stating that one period had to be longer than the other • Incorrect minimum number of years for DCAT • Incorrectly stating a minimum of years for ORSA 	
Part b	
The candidates were expected to demonstrate knowledge of how operational risk is being accounted for in the MCT and in ORSA.	
Common errors included:	
<ul style="list-style-type: none"> • Inaccurate descriptions of the operational risk capital calculation for either concept 	

EXAM 6C SPRING 2018 SAMPLE ANSWERS AND EXAMINER'S REPORT

Part c

Candidates were expected to understand and be able to explain the role of stress testing in setting the internal target as part of ORSA.

A common error included:

- Being able to explain what stress testing is, but failing to relate the concept to the setting of capital targets.