Actuarial Standards Board
Conseil des normes actuarielles

Exposure Draft

Revision to the Standards of Practice to Incorporate Changes to Section 2500 Dynamic Capital Adequacy Testing

Actuarial Standards Board

January 2019

Document 219011

Ce document est disponible en français

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Memorandum

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

From: Conrad Ferguson, Chair
Actuarial Standards Board

Marco Fillion, Chair
Designated Group

Date: January 21, 2019

Subject: **Exposure Draft for the Revision to the Standards of Practice to Incorporate Changes to Section 2500 Dynamic Capital Adequacy Testing**

Comment Deadline: **April 30, 2019**

Introduction

This exposure draft (ED) proposes changes to section 2500 Dynamic Capital Adequacy Testing of the Standards of Practice (SOP). It was approved by the Actuarial Standards Board (ASB) on January 18, 2019.

A notice of intent (NOI) to provide the background and general information on these proposed changes was distributed by the ASB on November 24, 2017, with a comment deadline of March 29, 2018.

Background

The objectives of the proposed revisions to section 2500 Dynamic Capital Adequacy Testing are to:

- Provide a more robust approach to satisfy the federal and provincial insurance acts requirement to report on the expected future financial condition of an insurance entity; and
- Allow for a better alignment with Own Risk and Solvency Assessment (ORSA) regulatory requirements as they relate to work needed to report on the expected future financial condition of an insurance entity.

Insurers' specific size, complexity, and other circumstances may have a significant influence on the appropriate level of harmonization between section 2500 and ORSA.

The proposed changes to section 2500 are not prescribing the level of harmonization. It is the insurer’s decision.

Proposed Changes

Some of the changes are significant and introduce new concepts to financial condition testing. An educational note is planned to be issued later in 2019 by the Committee on Risk Management and Capital Requirement and before the changes are made effective to provide the actuary with the necessary guidance to apply the revised standard.

The key changes are summarized below.

Name of the Standard

Dynamic Capital Adequacy Testing (DCAT) is renamed Financial Condition Testing (FCT). This is more reflective of the Insurance Companies Act (ICA) (similarly for provincial acts) which requires that the actuary report on “the expected future financial condition of the company”, and of proposed expanded definition of “satisfactory financial condition” and ORSA’s core principle of assessing current and future solvency positions.

Definition of “Satisfactory Financial Condition”

The threshold for the base scenario is changed to internal target rather than the regulatory supervisory level. It is the designated group’s (DG’s) view that meeting internal targets is more consistent with regulatory expectations regarding current regulatory capital reporting.

In addition, the definition of “satisfactory financial condition” is expanded to test two thresholds: going concern and gone concern. Going concern scenarios test the minimum regulatory targets. Gone concern scenarios test the sufficiency of assets to meet the statement value of the liabilities, as required in the current standards of practice (SOP).

All three thresholds must be tested and passed to provide a satisfactory opinion. This is consistent with regulatory frameworks which concern themselves with not only the risk of insolvency (gone concern), but also with insurers’ ability to withstand severe scenarios under stressed condition while remaining viable (going concern).

The DG recognizes that the testing the concept of going concern is challenging and will also require practical guidance, which is expected to be included in the educational note.

Opinion of the Actuary

The opinion is modified to:

- Link to ORSA internal targets;
- Explicitly allow for a qualified opinion—the ED gives guidance on when a qualified opinion would be appropriate; and
- Remove wording related to scenarios tested and their description in the report, significant assumption described in the report, and the identification of key risk exposures in the report.

Recent Financial Position and Forecast Period

The ED no longer suggests a specific number of years for the review of the recent financial position and the forecast period. The most appropriate number of years is left for the actuary to decide, based on the facts and circumstances of the insurer and the analysis.

Risk Categories

The detailed listings of risk categories are removed. The DG felt that those sections were not adding value to the SOP as they are already well documented in educational notes and other literature. Instead, the SOP will remind the actuary that risk categories should be assessed and relevant ones should be tested.

General Harmonization with ORSA

Throughout section 2500, wording is added to refer to ORSA or other processes where coordination could be beneficial.

Feedback from Stakeholders

In its NOI, the ASB solicited feedback on a number of questions. Major issues raised by stakeholders and proposed responses are summarized below. Feedback was received from CIA committees, regulators, and insurers. The DG appreciates the feedback received and has considered it in the development of the ED.

1. *Conceptually, the ORSA should be sufficient to provide the AA the necessary information to report on the financial condition of the insurance entity. How prescriptive should the SOP be in harmonizing the work of the AA with the ORSA process (scenarios, stress tests, internal targets setting, reporting, etc.)? Should it allow flexibility to have a fully separate process? Why?*

   The feedback received was there is value and efficiency in harmonizing the timing, tools, models, and assumptions used in both processes, including the reports. However, the SOP should allow for flexibility of approach and the guidance should not be prescriptive as it relates to harmonization. Companies should have a choice to integrate their DCAT and ORSA processes or keep them separate, if appropriate.

   The DG agrees with the need for flexibility. The draft SOP allows for the harmonization of ORSA and FCT processes or keeping them separate. However, the ED highlights the need for coordination of certain aspects between ORSA and FCT; for instance, use of ripple effects or commenting on the consistency of the results with ORSA.

   There was some concern that since the actuaries may not be responsible for ORSA, the CIA should prescribe a few well-defined DCAT scenarios to allow for comparison across companies, and the Appointed Actuary (AA) should explain and justify their overall use of the ORSA process.

   One of the main purposes of FCT is to identify an insurer’s key risks and the solvency risk associated with them. Those risks can vary significantly between insurers due to their different sizes and complexity. Well-defined scenarios may even be irrelevant for some insurers. For that reason, the use of well-defined scenarios was rejected.

2. *What changes to the current SOP section 2500, including the definition of satisfactory financial condition, can be made to make it more robust (e.g., inclusion of stress testing and integrated scenarios, etc.), effective (e.g., not a compliance exercise), and value-added to management and the Board (e.g., why analyse and report the same risks through different processes)?*

   The feedback received varies in degree but was consistent that the SOP should allow the AA to consider results of other scenario testing, such as ORSA, and harmonize (with appropriate review), and that the definition of "satisfactory financial condition" should be strengthened beyond the current approach, such as by using an internal target.

   The proposed changes to the SOP are aligned with these comments. As discussed above the ED highlights the need to coordinate FCT with other scenario testing done by the company, such as ORSA. This would promote communication and comparison of analysis between the FCT and ORSA.

   The satisfactory financial condition was strengthened to test the insurer's ability to operate on a going concern basis, and in addition to test gone concern scenarios, similar to today. Going concern scenarios test the insurer's ability to meet regulatory minimum targets.

3. *Are internal targets the appropriate focal point in harmonizing DCAT and ORSA? If so, should the AA review, assess, or use the determination of the internal targets set by ORSA in his/her assessment of the satisfactory financial condition?*

   The feedback received varied. Most agreed that the zero surplus target is inadequate.

   Some felt that internal targets should be determined by the AA and used in the AA's financial condition analysis. Internal targets are the logical focal point in harmonizing DCAT and ORSA and should be aligned with the risk appetite of the insurer.

   Others suggested that the most appropriate targets should be those based on regulatory accounting and capital requirements, such as one that satisfies minimum regulatory requirements.

   The feedback also suggested that if the AA uses the ORSA process and results in assessing the company's financial condition, then the AA should explain and justify the overall level of use of the ORSA process.

   The DG felt that the internal target should be central to the harmonization and to the financial condition requirement under the base scenario. The actuary's opinion would also state the reliance of the internal target derived by the ORSA.

   As discussed above, going concern scenarios test the insurer's ability to meet regulatory minimum targets. Minimum targets were selected, rather than supervisory target for consistency with ORSA.

4. *What currently works with the DCAT process and should remain part of the supporting work done by the AA?*

   The feedback collected varied but was consistent in that the following should remain:

   - Requirements related to data, methods, assumptions, scenarios, and ripple effects; and
   - The need to provide a clear and objective definition of financial condition, independent of management pressures.

   Some suggested that the specific requirement on risk categories should no longer be included. As such, the AA would have discretion on relevant and on any new risk categories that require review and comment.

   Some also felt the majority of the DCAT requirements are covered as part of ORSA, and therefore can be embedded with ORSA, while still fulfilling the SOP.

   There are opportunities to streamline and integrate, such as using consistent projection periods that align with the company's ORSA.

   The ED is generally consistent with the comments received.

5. *What does the DCAT process bring that the ORSA process does not, and vice versa?*

   DCAT responds to a legislative requirement and is on a regulatory basis. DCAT relies on actuarial standards and presents the AA's opinion. DCAT brings comparability, whereas ORSA practices can be divergent. DCAT provides independence of perspectives and unbiased insight. A few commented that more standardization would be an improvement to allow better comparability across companies.

   The feedback was clear that ORSA is useful in managing the company as a going concern. It creates an appropriate governance and risk management culture tailored to its circumstances. ORSA considers operational and strategic risks, in addition to traditional actuarial risks. ORSA also provides a qualitative assessment of the company's risk governance and control structure. ORSA is broader and encompasses the company's risk appetite, internal assessment of capital needs, and expectations from senior management and the board. ORSA can be based on either a regulatory reporting or an economic capital basis. The board has ultimate oversight of ORSA.

   ORSA and DCAT are complementary, and thus should be consistent. DCAT and ORSA should be better aligned.

   The DG agreed with the feedback and embedded it into the standards, where improvements were clear. The ED allows flexibility to account for insurers' facts and circumstances.

6. *What revisions should be made about the opinion of the AA regarding future financial condition? (What should stay? What needs to change? The current opinion is based on how DCAT defines satisfactory financial condition. That definition may change under a new standard and your views on the opinion should not be constrained by that definition.)*

The responses from the stakeholders vary.

A few think that the opinion statement does not need to change. Others thought it would be valuable to have the actuarial opinion contained within the ORSA report. Some thought that the opinion should be removed and revert to the AA reporting the sufficiency of their operating target for its financial condition.

Most thought that if an opinion is required, then “satisfactory” must be very well-defined and strengthened. A few want one or more sufficiently adverse DCAT stress tests prescribed.

Few want a report similar to DCAT maintained, where the actuary’s opinion, financial projections, and results of shocks should continue to be required.

Others thought the new report should include an explicit opinion from the AA, stress test results using internal capital (ORSA), results with and without management action, balance sheets, and income statements.

The actuary’s opinion is a central piece of the future financial condition analysis. The Insurance Companies Act (and provincial acts) requires the actuary to report on the future financial condition and the opinion provides a clear result of the analysis: pass, qualified pass or fail. The ASB and our regulators believe that an opinion is necessary. To support the opinion, the ED keeps a well-defined satisfactory financial condition. Harmonization of FCT and ORSA reporting is optional.

7. *Other issues that should be discussed?*

Prescriptive actuarial standards should be limited to work needed to satisfy the AA’s opinion under the ICA (similarly for provincial acts). However, they should not prescribe requirements for ORSA, since not all risk functions have actuaries working within them. Guidance should be provided on how to relate capital to risk.

Regulators rely on information in the DCAT report. Parts of the report are also useful for the insurers themselves. CIA guidance should be strong since supervisors rely on the actuary’s opinion to determine the insurer’s financial condition. The Rules of Professional Conduct also foster independence for the actuary. There should be an avenue whereby the actuary can work independently, if he or she does not agree with the chief risk officer on a scenario or the level/nature of risk. The new report will continue to be useful to regulators.

A possible framework would be for the AA to sign off on financial condition using the current SOP definition. In addition, the SOP would have a specific scenario that could be incorporated into ORSA, in which case the AA could rely on the ORSA analysis. Otherwise, the AA would supplement the ORSA analysis. The AA would consider the operational and strategic risks in ORSA, but not be required to opine on them.

The DG believes that the ED provides the necessary level of flexibility for insurers to harmonize ORSA and FCT as they judge appropriate, while bringing a level of linkage that is desirable and beneficial to improve efficiency in the operationalization and reporting of each process.

Timeline

It is the responsibility of the ASB to make final decisions regarding the new standards of practice. The goal of the ASB is to adopt final standards in time for the FCT reporting due in 2020. Early implementation would likely be permitted.

Your Feedback

Feedback on all aspects of the proposed changes, as well as suggestions for other changes not presented in this ED, are encouraged.

Interested parties are invited to formally submit their feedback on these proposed revisions by **April 30, 2019**. Parties wishing to comment on this ED should direct those comments to Marco Fillion at marco.fillion@pwc.com with a copy to Chris Fievoli at chris.fievoli@cia-ica.ca. Queries may also be directed to any member of the DG, as listed below.

Members of the DG DCAT/ORSA

The group responsible for the development of the revisions to the SOP consists of: Hélène Baril (Life), Pierre Bernard (P&C), Wally Bridel (Reinsurance), Marco Fillion (Chair), Kevin Gray (Life), Pierre Lepage (P&C), Elise Maguire (Mortgage Insurance), Valerio Valenti (Life), Diane Gosselin (OSFI observer), Sylvain St-George (AMF observer), Alexis Gerbeau (ASB liaison), and Tony Williams (Observer). Members of the DG may all be contacted at their membership directory addresses.

Due Process

The ASB's Policy on Due Process for the Adoption of Standards of Practice was followed in the development of this ED.

CF, MF

2500 Financial Condition Testing

2510 Scope

.01 Part 1000 applies to work within the scope of this section 2500.

.02 This section 2500 applies to the appointed actuary of an insurer when reporting on the insurer's financial condition pursuant to law.

2520 Analysis

.01 The appointed actuary should make an investigation at least once during each financial year of the insurer's recent and current financial position and financial condition, as revealed by financial condition testing for selected scenarios. [Effective Month XX, 201X]

.02 The appointed actuary should make a report of each investigation in writing to the insurer's board of directors (or to the appropriate committee of the board such as audit committee, risk committee, etc. if they so delegate) or its chief agent for Canada. The report should identify possible actions, and reasons for those actions, for dealing with any threats to satisfactory financial condition that the investigation reveals. The actuary should also comment on the consistency of the results of the investigation and possible actions with the own risk and solvency assessment (ORSA). [Effective Month XX, 201X]

.03 The appointed actuary should ensure that the investigation is current. The investigation should take into consideration recent events and recent financial operating results of the insurer. [Effective April 15, 2017]

.04 The timing and frequency of the appointed actuary's investigations would be sufficient to support timely corrective actions by management and the board of directors or chief agent for Canada.

Recent and current financial position

.05 The investigation would review operations of recent years and the financial position at the end of each of those years.

Financial condition testing

.06 Financial condition testing examines the effect of selected plausible adverse scenarios on the insurer's forecasted capital adequacy. It would be one of the actuary's primary tools, along with the ORSA and business plan, for investigation of an insurer's financial condition.

.07 The purpose of financial condition testing is to identify plausible threats to satisfactory financial condition, actions that would lessen the likelihood of those threats, and actions that would mitigate a threat if it materialized.

.08 Financial condition testing is defensive, i.e., it addresses threats to financial condition rather than the exploitation of opportunity.

Satisfactory financial condition

.09 The insurer's financial condition would be satisfactory if throughout the forecast period,

- Under the base scenario, the insurer's regulatory capital meets its internal target ratios as determined by the ORSA;
- Under all going concern plausible adverse scenarios, the insurer's regulatory capital meets the minimum regulatory level; and
- Under all gone concern plausible adverse scenarios, the statement value of the insurer's assets is greater than the statement value of its liabilities.

Data, methods, and assumptions

.10 The actuary would start the forecast period using the data as of the most recent available fiscal year-end statement of financial position date.

.11 The assumptions and methods would reflect up-to-date studies and analysis available to the actuary.

.12 The policy liabilities would be revalued at the end of the first financial year of the forecast period if a change in assumption or method that is expected to be made by the insurer would result in a material change to the financial position of the insurer.

.13 The actuary would consider recent events and recent operating results of the insurer up to the date of the report.

.14 If an adverse event occurs between the date of the report and the date of its presentation to the insurer's board of directors (or its chief agent for Canada), then the actuary would, at a minimum in the presentation to the insurer's board of directors (or its chief agent for Canada), address the event and its potential implications on the results of the investigation. If appropriate, the actuary would redo the investigation.

Forecast period

.15 The forecast period for a scenario would be sufficiently long to be aligned with the risk emergence and the recognition of impacts through the accounting and solvency results, and to capture the effect of management action.

Scenarios

.16 The scenarios would consist of a base scenario and plausible adverse scenarios. Each scenario takes into account not only in-force policies but also the policies assumed to be sold or acquired during the forecast period, and both insurance and non-insurance operations (e.g., asset management, banking, or trust company subsidiaries).

Base scenario

.17 The base scenario would be a realistic set of assumptions used to forecast the insurer's financial position over the forecast period. Normally, the base scenario would be consistent with the insurer's business plan. The actuary would accept the business plan's assumptions for use in the base scenario unless these assumptions are so inconsistent or unrealistic that the resulting report would be misleading. The actuary would report any material inconsistency between the base scenario and the business plan.

Plausible adverse scenarios

.18 An adverse scenario is a scenario with an adverse outcome developed by stress-testing the assumptions used in forecasting the business plan, including the determination of insurance contract liabilities, with regard to risk factors that may trigger potential threats to the insurer's financial condition. An adverse scenario would be characterized as a plausible adverse scenario if it is credible and has a non-trivial probability of occurring. The actuary may use percentile rankings of outcomes to determine whether a scenario is both plausible and adverse. Plausible adverse scenarios vary among insurers and may vary over time for a particular insurer.

.19 The actuary would consider material, plausible risks or events to the insurer. Reverse stress-testing can help assess whether certain risk factors need to be tested, on the grounds that certain risk factors could never deteriorate to the point where they would be a threat to the insurer's financial condition. The actuary can thereby determine whether a material, plausible risk or event exists for the insurer over the forecast period.

Going concern scenario

.19.1 A going concern scenario is a plausible adverse scenario that assesses the insurer's ability to remain a viable entity. Such scenario is less severe than a gone concern scenario.

Gone concern scenario

.19.2 A gone concern scenario is a plausible adverse scenario that assesses an insurer's ability to remain solvent. Assets would be sufficient to allow for the run-off of remaining obligations, or provide for an orderly transfer of remaining obligations.

Risk categories

.20 The actuary would assess various risk categories and identify those that are relevant to the insurer's circumstances when considering threats to capital adequacy under plausible adverse scenarios.

.21 Repealed

Integrated scenarios

.22 The actuary would construct integrated scenarios by combining two or more risk factors whose combination gives rise to a plausible adverse scenario.

.23 In developing integrated scenarios, the actuary would consider how risk factors interact. For example, the impact of combining adverse scenarios for two or more risk factors, where each is associated with a relatively high probability, may give rise to an integrated adverse scenario to which the insurer's financial condition is sensitive. In such cases, an integrated scenario would be constructed by combining stress tests related to two or more risk factors. An integrated scenario would be designed so as to itself constitute a plausible adverse scenario.

.24 Repealed

Ripple effects

.25 In assuring consistency within each scenario, the actuary would consider ripple effects. Although most of the other assumptions used in the base scenario may remain appropriate under the plausible adverse scenario, some may require adjustment to reflect the interdependence of assumptions in the plausible adverse scenario.

.26 Ripple effects would include both policy owner action and the insurer's expected routine response to adversity. Selection of the assumptions for the insurer's response would, where appropriate, take into account

- Effectiveness of the insurer's management information systems and adjustment mechanisms;
- Insurer's historical record of promptness and willingness, when faced with adversity, to make difficult decisions; and
- External environment assumed in the scenario.

.27 The actuary would report the expected routine response, so that users may consider its practicality and adequacy. The actuary may also report the results assuming that the insurer does not respond to the adversity.

.28 Ripple effects also include regulatory action, especially under any plausible adverse scenario where the insurer fails to meet the supervisory target capital requirement. The actuary would consider action that could be taken by the Canadian regulator(s) as well as action taken by regulators in foreign jurisdictions. Such regulatory action and associated management response would consider the local assessment of solvency regardless of the insurer's worldwide solvency position as measured by Canadian regulatory standards. The actuary could also review the regulatory actions included in the ORSA's scenario testing, including internal target setting exercise, and consider their applicability to the financial condition testing's adverse scenarios.

Corrective management actions

.29 For each of the plausible adverse scenarios that would result in a threat to satisfactory financial condition, the actuary would identify possible corrective management actions that would lessen the likelihood of that threat, or that would mitigate that threat, if it materialized. These actions may include both routine and non-routine responses to adverse events.

.29.1 Routine responses could include but are not limited to:

- Repricing of insurance products;
- Regular policyholder dividend scale updates;
- Adjustments to non-guaranteed product elements.

Non-routine responses could include but are not limited to:

- Suspending dividend payments, capital reductions, and transfers to the parent or home office, where applicable;
- Raising additional capital or adopting an approved plan to raise additional capital if and when needed within a reasonable timeframe, or, in the case of a branch, requesting transfer of adequate funds from the parent company;
- Strengthening risk management practices;
- Mitigating the risk causing the capital shortfall; and
- An increased level of monitoring and reporting with respect to the insurer's capital position.

.30 Consideration would also be given to the effectiveness of possible corrective management actions in a volatile or stressed environment.

Scope of the investigation and report

.31 The report would contain the key assumptions of the base scenario and the plausible adverse scenarios posing risks to the satisfactory financial condition of the insurer.

.32 The report would disclose each of the risks considered in undertaking the financial condition testing analysis. It is expected that the actuary would scenario test and report at least once during each financial year on the base scenario, and plausible adverse scenarios posing significant risk for the insurer.

.33 The report would also contain the plausible adverse scenarios examined that cause the insurer to fall below its internal target capital ratios as defined by the ORSA. The report would make it clear whether under these scenarios the regulators may impose restrictions on the operations of the insurer, including its ability to write new business.

.34 If the investigation identifies any plausible threat to satisfactory financial condition, then the actuary would identify possible non-routine corrective management action that would lessen the likelihood of that threat, or that would mitigate that threat, if it materialized. For each such adverse scenario reported upon, the actuary would report the results both with and without the effect of non-routine corrective management action. The actuary would ensure that the disclosure of the non-routine corrective management action is sufficiently clear so that users may consider its practicality and adequacy.

.35 The report would present the financial position of the insurer at each fiscal year-end throughout the forecast period.

Revaluation of the policy liabilities

.36 Ideally, for the base and each plausible adverse scenario, the insurance contract liabilities and, if applicable, other policy liabilities or reinsurance assets, would be revalued throughout the forecast period.

Frequency and/or timing

.37 The frequency and/or timing of the report would depend on the urgency of the matters being reported and on the desirability of aligning financial condition testing into the insurer's financial planning cycle and the ORSA process.

.38 The frequency and/or timing of the actuary's investigation would be adjusted where an adverse change in the insurer's circumstances since the last investigation may be so significant that to delay reporting to the time of the next scheduled investigation would be imprudent. For example, failure to meet the supervisory target capital requirement, or adoption of a radically different business plan, may necessitate the preparation of an immediate report.

2530 Reporting

.01 In the case of a Canadian insurer, the appointed actuary should report to the board of directors or to an appropriate committee of the Board (audit committee, risk committee, etc.) if they so delegate. In the case of a Canadian branch of a foreign insurer, the appointed actuary should report to the chief agent for Canada and may also report to the responsible senior executive in the parent head office. [Effective February 22, 2018]

.02 In order to give the insurer's senior management an opportunity to react to the results of the investigation, the actuary would discuss the report with the insurer's senior management in advance of its submission to the board of directors or chief agent for Canada.

.03 The report would be in writing, but an additional oral report that permits questions and discussions is desirable. An interpretative report would be more useful than a statistical report. The actuary would also consider other reporting such as the ORSA to ensure, where appropriate, the consistency of messages and/or delivery of consolidated ORSA and financial condition testing results.

.04 The report would be submitted within 12 months following each fiscal year-end.

2540 Opinion by the actuary

.01 The report should contain an opinion signed by the appointed actuary. [Effective April 15, 2017]

.02 In this opinion, "future financial condition" has the same meaning as "financial condition." The actuary may use the words "future financial condition" in order to comply with legislation or regulation in some jurisdictions.

.03 The wording of the opinion follows: [insert appropriate wording where indicated by square brackets]

> "I have completed my investigation of the [future] financial condition of [insurer name] as at [date] in accordance with accepted actuarial practice in Canada.
>
> I have analyzed its forecasted financial positions over a sufficient forecast period under a series of scenarios and stress tests. As part of my investigation, I have relied on [the ORSA and its assessment of] or [insurer name] internal targets.
>
> [My report includes the identification of non-routine corrective management actions that could be taken to mitigate the effect of plausible adverse scenarios].
>
> In my opinion, the [future] financial condition of the insurer [is satisfactory] or [is satisfactory subject to . . .] or [is not satisfactory for the following reason(s)...]"
>
> [Montréal, Québec] [Mary F. Roe]
> [Report date] Fellow, Canadian Institute of Actuaries

.04 Situations where satisfactory financial condition is met because of routine management actions, would not require a qualified opinion.

.05 A satisfactory opinion would be qualified for any of the following:

- The base scenario projected regulatory capital ratios are maintained or brought back above internal targets as a result of an existing plan approved by its regulator.
- For the base scenario:
    - Regulatory capital ratios are projected to decrease below internal targets at a period beyond the regulator's monitoring horizon;
    - The insurer has a plan to bring the ratios back above internal targets within a timeframe consistent with regulatory expectations; and
    - The appointed actuary is satisfied that such plan is realistic.
- For going concern scenarios the appointed actuary is satisfied that non-routine management actions can restore the insurer's capital ratio to above regulatory minimum targets in a manner consistent with regulator's expectations.
- For gone concern scenarios the appointed actuary is satisfied that non-routine management actions under the control of the insurer can restore the insurer's assets to be sufficient to meet its obligations.