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Educational Note

Dividend Determination for Participating Policies

Working Group on Dividend Determination

January 2014

Document 214008

Ce document est disponible en français

Members should be familiar with educational notes. Educational notes describe but do not recommend practice in illustrative situations. They do not constitute standards of practice and are, therefore, not binding. They are, however, intended to illustrate the application (but not necessarily the only application) of the Standards of Practice, so there should be no conflict between them. They are intended to assist actuaries in applying standards of practice in respect of specific matters. Responsibility for the manner of application of standards of practice in specific circumstances remains that of the members.

Seeing Beyond Risk Canadian Institute of Actuaries Institut canadien des actuaires Voir au-delà du risque

Memorandum

To: Members in the insurance practice area

From: Bruce Langstroth, Chair
Practice Council

Stephen Haist, Chair
Designated Group–Dividend Determination

Phil Watson, Chair
Working Group on Dividend Determination

Date: January 9, 2014

Subject: **Educational Note: Dividend Determination for Participating Policies**

When most of the standards of practice were consolidated in 2002, the existing standards of practice relating to dividend determination and illustration were left intact. In order to make the existing dividend standard of practice documents entitled Recommendations – Dividend Determination and Illustration and Explanatory Notes in Amplification of Certain Dividend Recommendations (both as amended June 1987) consistent with the other standards of practice in form and content, the Actuarial Standards Board (ASB) adopted changes to the new section 2700 of the Practice-Specific Standards for Insurance and asked that additional content be incorporated into a dividend determination educational note.

On January 1, 2014, the existing standards of practice relating to dividend determination and illustration were revoked at the same time as the new section 2700 of the Standards of Practice was adopted and this educational note was published by the CIA.

The previous standards were created in the early to mid eighties. The environment has changed in many ways since this time, so the educational note contains additional guidance and context regarding items to consider that were not present at the time of the original standards.

This educational note has been prepared by the Working Group on Dividend Determination in accordance with the Institute's Policy on Due Process for the Approval of Guidance Material Other than Standards of Practice, and received final approval for distribution from the Practice Council on December 12, 2013.

As outlined in subsection 1220 of the Standards of Practice, "*The actuary should be familiar with relevant Educational Notes and other designated educational material.*" That subsection

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explains further that a “practice that the Educational Notes describe for a situation is not necessarily the only accepted practice for that situation and is not necessarily accepted actuarial practice for a different situation.” As well, “Educational Notes are intended to illustrate the application (but not necessarily the only application) of the standards, so there should be no conflict between them.”

I would like to thank the members of the working group for their efforts in the development of this educational note: Jeff Barnes, Bonnie Carmichael, Nathalie Cloutier, John Dark, Stephen Haist, Ivy Lee, David Littleton, and Dale Matthews.

Questions may be addressed to Phil Watson at his CIA Online Directory address: pwatson@equitable.ca.

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1. GENERAL

1.1 Purpose

Subsection 2720 of the Standards of Practice contains the following requirements with respect to policyholder dividend determination on individual life, annuity, and health policies:

.01 *There should be a written report which documents the advice on policyholder dividend determination, and which describes the framework of facts, assumptions, and procedures upon which the advice was based.*

.02 *The report should include:*

a description of the process used to determine dividends;

the manner in which policy and experience characteristics are reflected in that process; and

the methodology used to calculate dividends, including specific factors used to reflect policy and experience characteristics.

.03 *The report should state whether or not the contribution principle has been followed, and, if it has not been followed, the report should describe the deviations and the rationale for making them.*

The purpose of this educational note is to provide guidance to the actuary on these standards, with respect to:

- The application of the Contribution Principle; and
- The contents of the report on the policyholder dividend determination.

In addition, it provides an overview of other considerations and relevant guidance with respect to dividend determination.

1.2 Scope

1.2.1 Applicability

Standards of practice apply to work in Canada (subsection 1230), which itself depends on the ultimate purpose of the work. In this situation, the standards, and therefore the guidance in this educational note, apply to the determination of dividends under participating individual life, annuity, and health policies issued for delivery in Canada.

When the actuary advises on dividends for policies issued for delivery outside Canada, the actuary would follow the actuarial principles and practices in the particular country. In the absence of such actuarial principles and practices, the guidance in this educational note would be appropriate.

Although in some situations the actuary advising on policy dividend determination is the Appointed Actuary of a company, this is not necessarily the case. This guidance applies to any actuary advising on dividend determination.

Individual life insurance, annuity, and health policies may be composed of several distinct agreements, each of which has a defined consideration and benefit structure. For example, in addition to the basic benefits, a life insurance policy may include disability and accidental death benefit provisions, or term riders. This guidance may be applied separately to any of these different types of agreements that are participating.

1.2.2 Illustrations

This educational note does not provide guidance on illustrations of dividends, as provided to policyholders or prospective policyholders. The actuary is referred to guidance provided by the Canadian Life and Health Insurance Association (CLHIA) Guideline G6.

1.2.3 Determination of Divisible Surplus

This educational note does not address the determination of the aggregate amount deemed to be available for distribution to policyholders at a point in time. This determination is a decision to be made by the board of directors of the company in the context of the participating account management policy, taking into account a number of factors, the most significant being the continuing solvency of the company and its ability to fulfil all contractual obligations.

However, the following guidance is provided with respect to determining whether the Contribution Principle (see section 3) is being followed.

The Contribution Principle, which is the basis for the generally accepted method of determining dividends in Canada, relies on the ability to determine the earnings of the participating account(s).

Under the Insurance Companies Act (ICA), section 456 requires the maintenance of separate and distinct accounts for participating and non-participating business. This makes it possible for the Contribution Principle to be followed for the participating business of a federally-licensed stock company; similarly for a stock company which is subject under provincial law, foreign law, or company charter to substantially similar provisions. In Canada, because there are very few companies that are not subject to such provisions, the general practice is to maintain separate accounts for participating business, non-participating business, and the shareholders' account, and to significantly restrict transfers from the participating account to the shareholders' account (see section 1.2.4).

If separate accounts are not maintained, but instead some other method is used which

- Is applied consistently from year to year;
- Uses sound accounting and actuarial principles;
- Is capable of independent review; and
- Gives results similar to those that would be produced by separate accounts,

the Contribution Principle can be followed. If the method does not meet these requirements, the actuary will not be able to say that the Contribution Principle has been followed in the determination of dividends.

The actuary would also consider the company's philosophy with regard to contributions to surplus from its participating policies. The company's participating account management policy is required to include "a description of the company's approach in managing and using the surplus, if any, in the participating account" and the actuary's recommendations would be consistent with this policy.

1.2.4 Limitations on Amounts Transferred among Accounts

While companies typically have only one participating account per jurisdiction, in some cases a company may also have participating sub-accounts. A sub-account may arise as a result of:

- A demutualization (the closed fund, open fund, and ancillary fund are such sub-accounts),
- Part of a past agreement to take over/acquire/merge a block of business from another company, and
- The company's internal tracking in its accounting for use in setting dividends.

Given that there is an appropriate method in place for the determination of the aggregate amount deemed to be available for distribution to participating policyholders, the degree of limitation on transfers to the shareholders' account can be addressed. The limitation which generally applies in Canada is that of section 461 of the ICA. Under subsection 461 (c), the Appointed Actuary (AA) must opine that the payment to shareholders or transfer to the shareholders' account would not materially affect the company's ability to comply with its dividend or bonus policy or to maintain the level of dividends or bonuses paid to the company's participating policyholders.

Where separation of accounts is not employed, moving an amount from the experience of a participating line would be regarded as equivalent to a transfer from the particular participating line.

2. ENVIRONMENT AND REGULATORY CHANGE

A number of factors have made participating insurance more complicated than the typical textbook example from the late 1980s and it is important that an actuary is aware of these.

The participating life insurance policy—whether provided by a mutual company, a stock company, or a fraternal benefit society—has been a long-standing staple of the Canadian life insurance industry throughout its history of more than 150 years.

In that time there has been significant change in the industry itself, the economic environment in which it operates, and the regulatory landscape.

These factors have combined to contribute to a regulatory environment that has increased its focus on disclosure and the equitable treatment of policyholders.

2.1 Regulatory Changes

There have been accounting and reserving changes that have had considerable effect on management of these portfolios.

The underlying framework for participating life insurance is an important focus of the ICA, which governs how Canadian insurance companies manage their affairs. While the ICA is a federal act it tends to set the stage for provincially-regulated companies as well.

Recent changes to the ICA made by Bill C57 (regulations 2010) together with guidance provided by the Office of the Superintendent of Financial Institutions (OSFI) in Guideline E16 (2011) provide a framework for actuarial and regulatory work in connection with participating insurance.

A company's board of directors must adopt the following:

- Participating account management policy;
- Dividend policy;
- Method of allocating investment income; and
- Method of allocating expenses.

The requirement to adopt a participating account management policy is new with the recent changes to the ICA; the other requirements listed above existed before the changes.

2.2 Appointed Actuary's Opinion

Annually, and at the time of any change, the AA must review the policies and opine on their fairness to the participating policyholders. The AA must also opine that dividend actions are fair and in accordance with the dividend policy. This will require the AA to have access to any studies or analyses that allow this opinion to be supported.

2.3 Fairness

The subject of "fairness" is beyond the scope of this educational note, but the principles described here may assist the actuary in assessing the fairness of dividend practices. For more specific guidance, the actuary is referred to the educational note Guidance on Fairness Opinions Required Under the Insurance Companies Act Pursuant to Bill C-57 (2005).

2.4 Consolidations and Demutualization

The 1990's and the early part of the twenty-first century have seen an unprecedented level of consolidations, producing a declining number of companies.

As well, several large mutual companies went through demutualization and some subsequent consolidation. These transactions generally caused specific restrictions and provisions to be imposed on the participating accounts of the affected companies.

In commenting on the management of these accounts and the determination of the dividends to be paid, actuaries are required to understand and follow the specific requirements of these provisions as they relate to their specific companies.

2.5 Policyholder Reasonable Expectations

In addition to the general principles on fairness, the actuary would consider policyholder reasonable expectations (PRE). PRE are the reasonable expectations by policyholders of the company's exercise of discretion in matters concerning their policies. PRE may arise from a number of sources, including:

- The company's communications in marketing materials;
- Information provided at the point of sale (such as policyholder dividend and investment performance illustrations);
- Its past and continuing administration practices; and
- General market conduct.

Past practice includes the non-exercise of discretion by the company. It is important that consideration of PRE be balanced with consideration of fairness, especially in circumstances where the two may be in conflict (e.g., where a strict interpretation of PRE might result in large inequities among classes).

2.6 Accounting Rules and Actuarial Practice

For all of the twentieth century, traditional book value accounting methods based largely on amortized cost valuation of assets led to a more or less stable approach to portfolios backing participating accounts. Mark-to-market practices and the developments in International Financial Reporting Standards have caused some companies to alter certain practices with the management of the participating accounts.

Similarly, actuarial reserving practices have emerged over time and the requirements of Canadian Asset Liability Method (CALM) reserving have modified the nature of participating account asset balances as there is no longer a cash value floor underlying the reserve. CALM reserves are subject to more volatility than was common with previous valuation methods. At the same time, practices in asset liability management have developed, so more tools are available to manage portfolios, including the use of alternative investments and synthetic investments such as derivatives.

As a consequence, company-specific practices must be developed to deal with a much wider range of issues in participating accounts than prevailed previously.

2.7 Consumer Disclosure

In the realm of consumer disclosure, market conduct issues led to the development of Guideline G6 by the CLHIA, which replaced guidance given in the previous note on practices with illustrations of dividends—both at point of sale and on in-force policies.

2.8 Adjustable Policies

As a result of changes to the ICA noted above, a company’s board of directors must also establish criteria for certain changes made in respect of adjustable policies, and these criteria are also subject to a fairness opinion from the AA. An adjustable policy is specifically defined as being non-participating.

To the extent a participating policy has an adjustable feature—for instance, a non-guaranteed premium level—it is not considered to be an adjustable policy within the scope of this legislation.

3. DEFINITION OF CONTRIBUTION PRINCIPLE

The Contribution Principle is a principle of policyholder dividend determination whereby the amount determined to be available for distribution to policyholders by the directors of a company is divided among policies in the same proportion as policies are considered to have contributed to that amount.

The objective of the Principle is to achieve reasonable equity between participating policyholders.

In its pure form, the Principle applies to the amount deemed to be available for distribution each year. However, it can also be related to amounts deemed to be available for distribution over an extended period of time when constraints on such amounts or the dividend distribution system prevent the application of the Principle each year.

The actuary would include commentary on the application of the Contribution Principle in the report as described in section 7.

4. THE PROCESS OF DIVIDEND DETERMINATION

The application of the Contribution Principle to the determination of dividends requires two basic elements:

a) Policy factors reflecting the assumptions used to be measured against any future experience; and
b) Experience factors reflecting the actual experience that emerges over time.

Various methods may be used in the determination of dividends and are described in actuarial literature, including:

a) The Source of Earnings Method (or Contribution Method);
b) The Asset Share Method;
c) The Fund Method;
d) The Experience Premium Method;
e) The Percentage of Premium Method; and
f) The Reversionary Bonus Method.

Methods a)-e) above, by their nature, meet the Contribution Principle. The Reversionary Bonus Method could satisfy the Contribution Principle over an extended period of time.

It is the application of a particular method, by means of the experience factors, which determines whether or not it follows the Contribution Principle—not the method itself.

It may be that a particular method for the determination of periodic dividends that does not itself satisfy the Contribution Principle will do so when terminal dividends are taken into account.

Dividend determination is a process subject to practical constraints. Such constraints include the cost associated with the dividend scale change and the practicality of dealing with small groups of policies, and it may be appropriate to make use of approximations or simpler processes and formulae where the circumstances warrant such applications (see the educational note Guidance on Fairness Opinions Required Under the Insurance Companies Act Pursuant to Bill C-57 (2005) for more information on the topic).

Terminal Dividends

A company may also have terminal dividends payable upon events such as death, maturity, or surrender.

The actuary's report would state whether terminal dividends equitably reflect the incidence, size, and growth of the policy's share of the amounts previously accumulated on behalf of the policies on which such dividends are payable, whether differences in terminal dividends among different policies reflect differences in corresponding amounts accumulated, and whether terminal dividends are expected to be recurring and/or for a temporary period. It is suggested to also include a description of the process used to determine terminal dividends, and of the sources of funds (such as the investment gains) that are being used to support the dividend.

5. POLICY FACTORS

Policy factors are those elements that reflect the assumptions against which experience would be measured. Generally they are based on the guarantees or underlying actuarial structure of the policy. Examples of policy factors may include, but are not limited to:

a) Cash values
b) Reserve factors;
c) Gross premiums;
d) Policy loan interest rate; and
e) Pricing assumptions (e.g., interest and mortality).

In calculating dividends for a particular policy, the policy factors may be the actual factors of that policy or they may be reasonable approximations to the actual factors when practical considerations indicate the need for such approximations. Policy factors may also have to consider terms established at demutualization.

For example, the gross premium per unit of coverage may vary with mode of premium payment, size of policy, sex of insured, rating classification, or other items. Often dividends are calculated using a gross premium, which may be the annual mode premium for a particular size of policy of an insured of a particular sex who is classified as a standard risk. The differences between such a gross premium and the actual gross premium are intended to provide for the variations in cost associated with the items generating such differences.

6. EXPERIENCE FACTORS

6.1 General

Experience factors are those elements that reflect actual experience, and would be consistent with the underlying experience of the participating account. A particular experience factor reflects actual experience of a specific type. Examples of experience factors are investment income rates, mortality rates, termination rates, and expense rates.

The experience factor for a given type of experience may have several different numerical values. For example, the experience factor corresponding to investment income may have one numerical value for policies containing a 6 percent maximum loan rate, and a different numerical value for policies with a different maximum loan rate or no maximum loan rate. Policies may be combined into groups whose dividends are determined by using a common numerical value of a particular experience factor. Such a group will be referred to as an *experience factor class* with respect to that factor.

When there is more than one factor class with respect to a particular experience factor, differences in the value of such factor between any two classes would be based on differences in actual experience between those two classes.

Experience factor classes would be established at issue. These classifications would not be expected to change to the detriment of a class or group except as justified or required as a result of external circumstances arising after issue. An example might be post-issue changes in taxation affecting only some policies or affecting different classes differently. Justification would be documented and supported, and would be free from arbitrary bias against any particular group or class.

Actual experience of a factor class means such experience and trends in experience to the extent that they are determinable, available, and statistically credible. When such suitable data are lacking, actual experience is to be interpreted with sound professional judgment based on experience and trends in experience of other similar classes of business either in the same company or other companies or from other sources, generally in that order of preference.

If any projection of experience trends is made in determining the experience factor value of any factor class, then such trend projections to the same point in time would be made uniformly for all classes. Such projection would be limited to a relatively short time frame, for example to reflect the average experience expected during a period for which a dividend scale is likely to remain appropriate.

The placement of a policy within one experience factor class or another would be based on uniformly-applied criteria designed to group together policies with similar levels of experience.

Contractual guarantees, other legal circumstances, or existing company practices may justify paying the same dividends to policies with differing experience expectations. An example of such a situation is the grouping of underwritten policies of a particular whole life plan with conversions from term policies to that same plan. Although the company anticipates different mortality and lapse experience from these two sets of policies, it may have established an implicit agreement with the converting policyholders to treat them in all respects identically to those who purchased underwritten whole life policies.

Guarantees, such as minimum or fixed dividends, can also be found in acquisition or demutualization agreements. Such guarantees would be factored in the calculation of the dividends. For acquired blocks of participating policies, approximations are appropriate when the information needed to calculate the experience factors by the classes set at issue is not available.

Policyholder reasonable expectations (PRE) would also be taken into account in setting dividends. Potential challenges may include:

- Changing dividends on a block where the dividend scale has not changed for many years when experience in those years would have warranted changes;
- Paying a cash dividend smaller than the one from the prior year if a company has for many years been following the practice of ensuring dividends do not decrease; and
- The consideration of PRE set by the previous company when setting dividends for an acquired block.

6.2 Claims Factors

The claims factors represent annual rates of mortality or morbidity, depending on the product. Elements that may have a significant impact on claims factors include, but are not limited to, age at issue, sex, risk selection class, and time elapsed since policy issue.

In the determination of actual claims factors, groups of policies with similar experience may be combined in order to obtain more credible data.

6.3 Investment Income Factors

The investment income element is usually a major component in the amount of dividends paid to policyholders. The investment income experience factor generally reflects the investment experience of the participating account for which dividends are being determined. This may include not only interest earnings reduced by investment expenses, but also the effects of capital gains and losses.

The investment income for a given group of policies may be directly affected by factors such as:

- The amount and timing of investable cash flow generated by the insurance operations of the group of policies;
- The investment income rates initially and subsequently applicable to that cash flow due to investments actually made;
- The rate of rollover of those investments, which affects investable cash flow in subsequent periods; and
- The effect of permanent or temporary tax differences.

The use of either the portfolio average approach or the investment generation approach to determine investment income is considered generally accepted practice. The portfolio average approach averages the effect of the items above over all groups of policies. The investment generation approach recognizes the effect of the items above separately on various groups of policies. Various mixed approaches are possible. For example, a company may use an investment generation approach to allocate investment income to the various lines of business, but use a portfolio average approach to allocate investment income within one or more such lines of business.

It is generally accepted practice to reflect the effect of policy loans in the investment income factors. The investment income for a given group of policies may be directly affected by policy loans. The effect depends on the contractual or actual policy loan interest rate and the policy loan experience levels. Policy loan interest can be reflected in the investment income factors in a number of ways:

- In aggregate with other investment income to recognize the utilization rate of loanable funds; and
- Directly to borrowing policyholders on a policy by policy basis, or at a class level.

6.4 Termination Factors

The termination factors represent annual rates of termination of coverage for reasons other than claim. Elements that may have a significant impact on termination factors include, but are not limited to, time elapsed since policy issue, age at issue, sex, risk selection class, frequency of premium payment, plan, size of the policy, and how far in-the-money any guaranteed elements are.

6.5 Expense Factors

Direct expenses are those that can be specifically related to a particular policy, such as commissions, underwriting expenses, and policy issue and maintenance expenses. Other expenses are indirect, such as general overhead costs. In the determination of unit expense rates for dividend purposes, direct costs would be charged to the groups of policies generating those costs and indirect costs would be allocated using sound principles of expense allocation. The allocation would result in reasonable and fair expenses charged to each class.

6.6 Taxes

The participating account management policy would describe the allocation of taxes to the participating account, including the effect of any permanent and temporary differences.

Taxes may be included explicitly in the dividends using tax factors, or they may be included as part of other factors. For example, the investment income factors may be increased to recognize the preferential tax treatment of some assets, such as dividend-paying Canadian equities.

6.7 Smoothing

Smoothing is commonly used to avoid undue yearly fluctuations in the dividend scale, by introducing the effect of changes in experience on a gradual basis. The actual experience for each factor may be smoothed separately, generally over a few years. Smoothing would not result in material cross-subsidization of one experience factor class by another. In general, the total impact of smoothing at the class level would align with the impact of smoothing at the aggregate level.

6.8 Other Considerations

The actuary would consider the dividend policy and the participating account management policy in determining dividends for each class.

For stock companies, the maximum amount allowed as a transfer from a participating account to the shareholder account is a percentage of distributed dividends. The resulting interaction between the dividend scale and the expected transfer to shareholders would be considered in setting the dividends.

6.8.1 Other Potential Adjustments to Dividends

Adjustments to dividends can be made for a variety of reasons, such as:

- To reflect gains or losses on supplementary benefit riders;
- To reflect losses arising from the presence of settlement option guarantees;
- To smooth the transition from one dividend scale to another;
- To serve as a balancing item so that aggregate dividends equal aggregate divisible surplus;
- To distribute gains from extraneous sources such as non-par benefits or lines of business; and
- To smooth the incidence of dividends within a dividend scale by policy duration.

6.8.2 Capital Considerations

Another important consideration for many companies is to manage their dividend scales in such a way as to ensure that they are able to classify their participating business as “qualifying participating policies” for purposes of regulatory capital requirements, which reduces the amount of required capital in recognition of the reduced risk of losses due to the ability to pass adverse experience through to policyholders.

At the time of this note, the Minimum Continuing Capital and Surplus Requirement guidelines issued by OSFI specify the criteria that must be met in order to qualify for this treatment; in particular, experience losses must be shown to be recoverable via dividend adjustments over a five-year time frame.

6.8.3 International Financial Reporting Standards (IFRS)

In the calculation of the investment income component of the dividend, it is common to multiply the investment income factors by an amount that is representative of the policyholder's share of the participating account. The policyholder's share of the participating account can be approximated by the guaranteed cash value of the policy or by a reserve factor.

Since the introduction of market value reserves and IFRS, the sum of the amounts used in the dividend formula to represent the policyholders' share of the participating account may be quite different from the actual reserve held for the participating account. An adjustment to the experience factors may be necessary.

For many years, participating accounts have experienced relatively stable investment earnings that have resulted in slowly-changing dividends scales. Since the introduction of market value accounting, the investment income on participating accounts has become more volatile. To meet PRE of stable dividend scales that have arisen historically, the actual experience in a given year can be reflected in the dividend scale gradually over a period of time.

6.8.4 Policyholder Behaviour

In addition to the termination factors discussed earlier, the rate of election by policyholders of specific dividend options (paid in cash, used to purchase dividend additions), or such features as premium offset and the sustainability of such features may be important considerations, particularly in view of the low interest rate environment.

7. SUGGESTED REPORT CONTENT

When preparing a report in accordance with subsection 2720 of the Standards of Practice the actuary would take into account the relevant general considerations from section 1800 of the General Standards of Practice.

There is no specific requirement as to the recipient(s) of this report. The report is intended to serve as documentation of the advice provided on dividend determination and is not necessarily provided to the board of directors.

As per subsection 2720 of the Standards of Practice, the report should include:

- A description of the process used to determine dividends;
- The manner in which policy and experience characteristics are reflected in that process;
- The methodology used to calculate dividends, including specific factors used to reflect policy and experience characteristics; and
- A statement of whether or not the contribution principle has been followed, and, if it has not been followed, a description of the deviations and the rationale for making them.

The actuary would consider including in the report:

- A description of each of the experience factors used in the calculation of dividends;
- The value of each experience factor by experience factor class, and changes in such values;
- A description of any change in practice with respect to the determination of experience factor classes or placement of policies within them;

- Information regarding material approximations and guarantees; and
- A description of adjustments that are made to experience factors or to dividends.

Specific items that may be appropriate to discuss in the report include:

- The use of experience trend projections to determine experience factor values;
- The allocation of investment income to different classes of policies;
- The method used to reflect the effect of policy loans in the dividend scale;
- The allocation of expenses to different classes of policies;
- The method used to recognize taxes in the dividend scale; and
- The method used to smooth the dividend scale.

7.1 Scenario Analysis

The actuary may judge it worthwhile to provide additional information regarding the potential impact on future dividend scales under various alternative scenarios with regards to future experience; for example, by assessing the impact of various assumptions as to:

- Interest rates;
- Returns on non-fixed income assets;
- Mortality and morbidity experience; and
- Policyholder behaviour (e.g., lapse experience).

Such analysis could potentially be of value by providing an indication of the type and level of emerging experience that could warrant more specific or careful consideration in managing dividend scales over a period of time, such as potentially unrecoverable losses or potentially unfavourable regulatory capital implications.

8. REFERENCES

CIA educational note Guidance on Fairness Opinions Required Under the Insurance Companies Act Pursuant to Bill C-57 (2005) published December 2011, document 211123.

CLHIA Guideline G6—available at the following address: http://www.clhia.ca/domino/html/clhia/clhia_lp4w_lnd_webstation.nsf/resources/Guidelines/$file/Guideline_G6.pdf

Insurance Companies Act—published by the Minister of Justice at: http://laws-lois.justice.gc.ca

OSFI Guideline E-16 Participating Account Management and Disclosure to Participating Policyholders and Adjustable Policyholders, November 2011.