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## Educational Note

# 2020 Guidance to the Appointed Actuary and Valuation Actuaries of Property and Casualty Insurers

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## ***Educational Note***

# **2020 Guidance to the Appointed Actuary and Valuation Actuaries of Property and Casualty Insurers**

**Committee on Property and Casualty  
Insurance Financial Reporting**

**September 2020**

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*The actuary should be familiar with relevant educational notes. They do not constitute standards of practice and are, therefore, not binding. They are, however, intended to illustrate the application of the Standards of Practice, so there should be no conflict between them. The actuary should note however 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. Responsibility for the manner of application of standards of practice in specific circumstances remains that of the members. As standards of practice evolve, an educational note may not reference the most current version of the Standards of Practice; and as such, the actuary should cross-reference with current Standards. To assist the actuary, the CIA website contains an up-to-date reference document of impending changes to update educational notes.*

## MEMORANDUM

**To:** Members in the property and casualty insurance practice area

**From:** Steven W. Eason, Chair  
Actuarial Guidance Council

Sarah Chevalier, Chair  
Committee on Property and Casualty Insurance Financial Reporting

**Date:** September 18, 2020

**Subject:** **Educational Note – 2020 Guidance to the Appointed Actuary and Valuation Actuaries for Property and Casualty Insurers**

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The Committee on Property and Casualty Insurance Financial Reporting (PCFRC or the Committee) has prepared this educational note to provide guidance to the Appointed Actuary and valuation actuaries (referred to as “actuaries” in the rest of this note) in several areas affecting the valuation of the 2020 year-end insurance contract liabilities and other responsibilities of the Appointed Actuary of Property and Casualty insurers for Canadian generally accepted accounting principles (GAAP) purposes. The guidance in this educational note represents a majority view of the PCFRC members on appropriate practice consistent with the Standards of Practice.

The educational note is structured in nine sections and two appendices. The nine sections provide guidance on recent and emerging guidance and issues. Appendix A contains a list of relevant educational notes and reference documents. Appendix B provides an update on IFRS 17.

A preliminary version of this educational note was shared with the following committees for their review and comments:

- Committee on Life Insurance Financial Reporting (CLIFR)
- Committee on Risk Management and Capital Requirements (CRMCR)
- Committee on the Appointed/Valuation Actuary (AAC)
- International Insurance Accounting Committee (IIAC)
- Committee on Worker’s Compensation

The educational note was also presented to the Actuarial Guidance Council (AGC) in the months preceding its approval. The Committee feels that it has addressed the material comments received by the various committees.

The creation of this cover letter and educational note has followed the AGC's protocol for the adoption of educational notes. In accordance with the Institute's *Policy on Due Process for the Approval of Guidance Material other than Standards of Practice and Research Documents*, this educational note has been prepared by PCFRC and has received approval for distribution from the AGC on September 8, 2020.

The actuary should be familiar with relevant educational notes. They do not constitute standards of practice and are, therefore, not binding. They are, however, intended to illustrate the application of the Standards of Practice, so there should be no conflict between them. The actuary should note however 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. Responsibility for the manner of application of standards of practice in specific circumstances remains that of the members. As standards of practice evolve, an educational note may not reference the most current version of the Standards of Practice; and as such, the actuary should cross-reference with current Standards. To assist the actuary, the CIA website contains an up-to-date reference document of impending changes to update educational notes.

Some guidance provided last year is still appropriate and has been duplicated in this educational note. The guidance is labelled as unchanged. Other guidance has been modified, either to reflect recent developments or to improve clarity and is labelled as modified.

Questions or comments regarding this educational note may be directed to Sarah Chevalier at [sarahchevalier@axxima.ca](mailto:sarahchevalier@axxima.ca).

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## 1. Introduction *(unchanged)*

The Committee on Property and Casualty Insurance Financial Reporting (PCFRC) of the Canadian Institute of Actuaries (CIA) prepared this educational note to provide guidance to property and casualty (P&C) actuaries in the valuation of insurance contract liabilities. This note reviews relevant standards of practice (SOP) and other educational notes and discusses current issues affecting the work of corporate actuaries. Links to all the CIA documents referenced in this educational note are provided in Appendix A.

## 2. Guidance to members on specific situations *(unchanged)*

From time to time, CIA members seek advice or guidance from the PCFRC. The PCFRC strongly encourages such dialogue. CIA members are assured that it is proper and appropriate for them to consult with the chair or vice-chair of the PCFRC.

CIA members are reminded that responses provided by the PCFRC are intended to assist them in interpreting the SOP, educational notes, and Rules of Professional Conduct (Rules), and in assessing the appropriateness of certain techniques or assumptions. A response from the PCFRC does not constitute a formal opinion as to whether the work in question is in compliance with the SOP and Rules. Guidance provided by the PCFRC is not binding upon the member.

## 3. Standards of Practice *(modified)*

The SOP are subject to revision from time to time. At the time of writing this educational note, references to the Rules of Professional Conduct (Rules) and to the SOP correspond to the versions effective December 1, 2020. No changes were made to Sections 1000 and 2000 since the version effective January 1, 2020.

While all the [Rules](#) and [SOP](#) are important, your attention is directed to the following that are particularly relevant:

- Subsection 1240 – Materiality
- Section 1400 – The Work including subsection 1460 – Quality Assurance
- Section 1500 – Another Person’s Work; including subsection 1530 – Review or repeat of another actuary’s work
- Section 1600 – Assumptions and Methods
- Section 1700 – Reporting
- Section 2100 – Insurance Contract Valuation: All Insurance
- Section 2200 – Insurance Contract Valuation: Property and Casualty Insurance
- Section 2400 – The Appointed Actuary
- Section 2500 – Financial Condition Testing (replaces the section on Dynamic Capital Adequacy Testing, effective January 1, 2020). Revisions were made to SOP Section 2500 effective January 1, 2020 with the objective to provide a more robust approach to the requirements for the report prepared by the Appointed Actuary on the expected future financial condition of an insurance entity and to better align with the Own Risk and

Solvency Assessment (ORSA) regulatory requirements. The section was renamed to “Section 2500 – Financial Condition Testing.”

#### 4. Recent guidance (*new*)

This section contains a list of guidance material published recently to assist actuaries in their year-end valuation of insurance contract liabilities and Financial Condition Testing (FCT) work.

No recent guidance material was published in relation to year-end valuations.

The following educational notes were published recently and provide relevant guidance with respect to the FCT:

- Educational Note: [Financial Condition Testing](#) (April 2020).
- Educational Note: [Guidance for the 2020 Reporting on Capital and Financial Condition Testing for Life, P&C, and Mortgage Insurers](#) (April 2020). This document is prepared annually by the Committee on Risk Management and Capital Requirements (CRMCR).
- Educational Note Supplement: [Updated Guidance for the 2020 Reporting on Capital and Financial Condition Testing for Life and P&C Insurers](#) (December 2019). This document addresses the transition from Dynamic Capital Adequacy Testing (DCAT) to FCT effective January 1, 2020 (CRMCR).

#### 5. COVID-19 (*new*)

The COVID-19 outbreak was first identified in Wuhan, China, in December 2019. During the first quarter of 2020, various outbreaks were identified around the world. The World Health Organization declared it a pandemic on March 11, 2020.

As the COVID-19 situation continues to evolve, actuaries would pay close attention to all guidance and updates from the Office of the Superintendent of Financial Institutions (OSFI), the Autorité des marchés financiers (AMF), and the CIA.

The CIA is engaged in informing members about COVID-19, through [a hub on its website](#). Actuaries are encouraged to visit the hub regularly as it contains analyses, webcasts, links and articles that are relevant to actuarial practice in the face of the current situation.

#### 6. Financial Condition Testing (*new*)

The CRMCR published a new educational note – [Financial Condition Testing](#) in April 2020, with a transitional effective date of January 1, 2020. This educational note provides guidance on how to interpret the revised SOP and summarizes the major changes from the prior SOP on DCAT. It also addresses the goals of stress testing providing details from OSFI and AMF guidelines. Appendix B of the FCT educational note contains a discussion of various P&C risk categories to be considered by the actuaries while conducting the FCT.

In December 2019, the CRMCR also published an educational note supplement: [Updated Guidance for the 2019 Reporting on Capital and Financial Condition Testing for Life and P&C Insurers](#) that addresses the transition from DCAT to FCT effective January 1, 2020.

In April 2020, the CRMCR published an educational note called [Guidance for the 2020 Reporting on Capital and Financial Condition Testing for Life, P&C, and Mortgage Insurers](#). This note provides an overview of guidance to actuaries in several areas affecting the reporting of the 2020 regulatory capital requirements and financial condition testing for insurers operating in Canada. Section 5 of this note (“Considerations for the 2020 Financial Condition Testing (FCT)”) contains key changes in the SOP: Section 2500, guidance for transition from DCAT to FCT in 2020, support for dealing with the upcoming changes due IFRS 17 with respect to FCT forecasts, and special considerations due to COVID-19 for the 2020 FCT.

## 7. International Financial Reporting Standards (*modified*)

There is no impact from IFRS 17 – Insurance Contracts on the 2020 year-end actuarial valuation; however, actuaries are encouraged to refer to the [IFRS 17 blog](#) on the CIA website (login required) for up-to-date summaries of CIA activities and links to relevant sources of information regarding IFRS 17. The International Accounting Standards Board® (the Board) decided to delay the effective date of IFRS 17 by another year, to January 1, 2023, and issued the final amendments to IFRS 17 in June 2020.

Please refer to Appendix B for information about the development of SOP, guidance, and capital requirements for financial reporting periods under IFRS 17.

## 8. Regulatory guidance (*modified*)

We remind actuaries to refer to updated communications from provincial and/or federal insurance regulators regarding insurance contract liabilities valuation and FCT reporting.

### 8.1. Office of the Superintendent of Financial Institutions (OSFI) Requirements (*modified*)

#### *OSFI Annual Memorandum for Actuarial Reports on P&C Business*

OSFI issues an annual [Memorandum to the Appointed Actuary](#). Actuaries would consult this memorandum for complete instructions from OSFI.

#### *Capital requirements*

References in this section of this educational note to OSFI’s minimum capital test (MCT) for Canadian insurers are also intended to encompass comparable requirements for Canadian branches of foreign insurers, i.e., the Branch Adequacy of Assets Test (BAAT).

The [MCT Guideline](#) currently in effect was issued by OSFI in November 2018 with an effective date of January 1, 2019. This 2019 [MCT Guideline](#) increased the margin required for reinsurance ceded to unregistered reinsurers and introduced a transition period for this increase. Guideline A-4 [Regulatory Capital and Internal Capital Targets](#) sets out OSFI’s expectations with respect to the setting of insurer-specific internal target capital ratios and how such targets relate to the assessment of capital adequacy within the context of OSFI’s supervisory framework. Guideline E-19 [Own Risk and Solvency Assessment](#) sets out OSFI’s expectations with respect to an insurer’s own assessment of its risks, capital needs, and solvency position and for setting internal targets.



**Guideline E-15 Appointed Actuary: Legal Requirements, Qualifications, and Peer Review**

A full peer review of both the Appointed Actuary's Report (AAR) and the FCT report is required every three years. In addition, OSFI expects the reviewer to undertake a limited scope annual review in the interim years and to prepare and file a report annually.

**Guideline B-9 Earthquake Exposure Sound Practices**

OSFI requires insurers to file the [Earthquake Exposure Data Form and instructions](#) by May 31 of each year using the Regulatory Reporting System.

**8.2. Requirements of the Autorité des marchés financiers (AMF) (modified)****AMF Annual Guides for Actuarial Reports on P&C Business**

The AMF issues specific guides to actuaries of Québec-chartered insurers for both the [valuation of insurance contract liabilities](#) and [FCT](#). The actuaries would consult these guides for the complete requirements from the AMF.

The AMF guide regarding the mandatory insurance contract liabilities report is updated annually and it addresses regulatory requirements and the report's expected content and prescribed layout. The AMF guide also mandates prescribed exhibits for reporting results of the actuaries' valuation. Prescribed exhibits include the unpaid claims and loss ratio analysis exhibits for which specific [instructions](#) are also available along with the guide.

**Capital Requirements**

In December 2019, the AMF published its [revised MCT guideline](#), which came into effect on January 1, 2020. The changes were limited to adaptations made necessary by the coming into force of the Insurers Act and minor edits or clarifications.

After the Insurers Act came into effect in June 2019, the AMF published two new MCT guidelines regarding the solvency requirements respectively of [self-regulatory organizations](#) and [reciprocal unions](#) authorized to carry on insurer activities. These guidelines were revised as of January 1, 2020 and are for the most part very similar to the current 2020 MCT guideline for traditional insurers, but with necessary adaptations.

The [FCT guide](#) replaces the DCAT guide. This document is updated annually and addresses the same general aspects as the guide on the valuation of insurance contract liabilities. When completing the FCT report, actuaries are advised to be aware of the latest developments in the calculation of the MCT ratio. The AMF requires the actuaries to annually disclose the insurer's internal capital target ratio, and the FCT guide states that the actuaries would take care to detail the methodology and assumptions used in the determination of the internal capital target ratio.

Actuaries of Québec-chartered insurers would also be aware that AMF requires insurers to file the earthquake exposure data by April 15 of each year, using the AMF [Earthquake Exposure Data Form](#) and [instructions](#) and based on latest year-end exposure.

Actuaries would be expected to be familiar with any subsequent revision to the capital requirements and incorporate them where applicable.

***Integrated Risk Management Guideline and Capital Management Guideline***

There has been no change to the [Integrated Risk Management Guideline published by AMF in 2015](#), to accompany the publication of its [Capital Management Guideline](#). These guidelines are meant to give specific expectations regarding capital and risk management.

The AMF expects actuaries to be involved in the own risk and solvency assessment (ORSA) mechanism, especially with regards to setting the internal capital target and stress testing as a complementary tool to FCT.

The AMF also expects the application of the ORSA mechanism to be the subject of an official report to the board of directors at least once a year, or more often if the financial institution's risk profile changes significantly, and assesses the degree of compliance to these guidelines as part of its supervisory framework.

**9. Emerging issues and other considerations *(modified)***

It is important for actuaries to be aware of current or emerging issues that could affect valuation of insurance contract liabilities. Some of these considerations might also affect the FCT. Several considerations are discussed below.

**9.1. Product reforms *(modified)***

Actuaries would consider the potential effect that product reforms may have on both the valuation of insurance contract liabilities and on the FCT. For example, the actuaries would consider the potential impact, if any, of the proposed transition to a no-fault automobile insurance framework in British-Columbia.

**9.2. Recent judicial, legislative, and political events *(modified)***

Regular communication with claims professionals is essential to the work of the actuaries. These discussions would encompass the potential effect of recent court decisions, judicial events, legislative changes, and political events that may be relevant to the valuation of insurance contract liabilities and FCT.

Prior annual guidance to actuaries contains reference to historical court cases that may still be relevant for the actuaries' work.

Actuaries would also consider any changes to the provincial or federal tax system or rates that need to be incorporated into valuation or FCT work.

**9.3. Catastrophic events *(unchanged)***

From time to time, catastrophic events occur that have the potential to affect actuaries' estimate of claim liabilities and, in some cases, the premium liabilities. Events that are considered catastrophic on an industry-wide basis may not have a catastrophic effect for a given insurer, while smaller industry events may. The extent to which any event is significant in the context of the valuation of a specific insurer's insurance contract liabilities depends on the nature of the insurer's business, its exposure in the affected region, policy wordings, and the date on which the event occurred.

The actuaries would consider the effect of extreme events on the following:

- Additional costs on other losses due to post-event inflation in the region as well as the rest of the country.
- The payment pattern and any change that the event may have on paid claims.
- Unallocated loss adjustment expenses (ULAE) estimates that may need to be tempered to the extent that the factor used to calculate the provision is a ratio to unpaid losses.
- Margins for adverse deviations, particularly for recovery from reinsurance ceded.

#### 9.4. Climate change (*unchanged*)

Weather-related disasters are occurring with greater frequency and magnitude than the industry has experienced in the past. In the transition period to a new climate reality, further estimation of the impact on claims is anticipated among new claim risks that will evolve within the actuaries' mandate as it relates to setting claims reserves and capital requirements. The recently released [CIA public statement](#) on climate change supports disclosure on climate risks on a mandatory basis by 2021 and voluntary compliance immediately. Additional resources from the [Climate Change and Sustainability Committee](#) can be found on the CIA website.

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## Appendix A – References

The following is a list of selected documents referenced in this educational note:

### CIA SOP and Rules

- [Standards of Practice](#)
- [Rules of Professional Conduct](#)

### CIA task force reports

- [Materiality](#) (October 2007)
- [Report of the CIA Task Force on the Appropriate Treatment of Reinsurance](#) (October 2007)

### CIA educational notes

- [Financial Condition Testing](#) (April 2020)
- [Guidance for the 2020 Reporting on Capital and Financial Condition Testing for Life, P&C, and Mortgage Insurers](#) (April 2020)
- Educational Note Supplement: [Updated Guidance for the 2019 Reporting on Capital and Financial Condition Testing for Life and P&C Insurers](#) (December 2019)
- [Duration Considerations for P&C Insurers](#) (March 2017)
- [Use of Models](#) (January 2017)
- [Premium Liabilities](#) (July 2016)
- [Discounting and Cash Flow Considerations for P&C Insurers](#) (May 2016)
- [Subsequent Events](#) (October 2015)
- [Evaluation of the Runoff of P&C Claim Liabilities when the Liabilities are Discounted in Accordance with Accepted Actuarial Practice](#) (June 2011)
- [Accounting for Reinsurance Contracts under International Financial Reporting Standards](#) (December 2009)
- [Margins for Adverse Deviations for Property and Casualty Insurance](#) (December 2009)
- [Classification of Contracts under International Financial Reporting Standards](#) (June 2009)
- [Consideration of Future Income Taxes in the Valuation of Policy Liabilities](#) (July 2005)
- [Valuation of Policy Liabilities P&C Insurance Considerations Regarding Claim Liabilities and Premium Liabilities](#) (June 2003)

### CIA research paper

- [Disclosure Requirements IFRS 4 – Insurance Contracts for P&C Insurers](#) (October 2010)

**CIA blog**

- [CIA IFRS 17 Blog](#) (Log-in required)
- [CIA COVID-19 Hub](#)

**OSFI documentation**

- [Memorandum to the AA](#) (September 2020)
- [MCT Guideline](#) (January 2019)
- Guideline A-4 [Regulatory Capital and Internal Capital Targets](#) (January 2018)
- Guideline E-19 [Own Risk and Solvency Assessment](#) (December 2017)
- [Earthquake Exposure Data Form and instructions](#) (March 2020)

**AMF documentation**

- [Valuation of insurance contract liabilities](#) (September 2020)
- [Unpaid claims and loss ratio analysis exhibits](#) and [Instructions](#) (September 2019)
- [Guideline on Capital Adequacy Requirements: Property and Casualty insurance](#) (January 2020)
- [Capital Adequacy Requirements Guideline: Self-regulatory organizations](#) (January 2020)
- [Capital Adequacy Requirements Guideline: Reciprocal Unions](#) (January 2020)
- [Actuary's guide regarding the Financial Condition Testing report of P&C Insurers](#) (February 2020)
- Earthquake Exposure [Data Form](#) and [Instructions](#) (no date)
- [Integrated Risk Management Guideline](#) (May 2015)
- [Capital Management Guideline](#) (May 2015)

## Appendix B – IFRS 17

The following information discusses the development of SOP, guidance, and capital requirements for financial reporting periods under IFRS 17.

### Standards of Practice

In May 2017, the IASB published the draft standards for IFRS 17, Insurance Contracts. The implementation date is expected to be fiscal years beginning on or after January 1, 2023. The Board discussed amendments to IFRS 17 Insurance Contracts in its recent meetings, in response to concerns and challenges raised by stakeholders as IFRS 17 is being implemented. The final amendments to IFRS 17 were published in June 2020. For the most current information please see the [Board website](#).

The Canadian Accounting Standards Board has indicated its intention that, once adopted by the IASB, and subject to its due process, IFRS 17 will be adopted without modification for the valuation of insurance contracts in Canadian generally accepted accounting principles (GAAP) financial statements.

The [International Actuarial Association](#) (IAA) released International Standard of Actuarial Practice 4 (ISAP 4) on IFRS 17 Insurance Contracts in November 2019. ISAP 4 covers actuarial practice in support of valuation of insurance contract liabilities in accordance with IFRS 17. The changes proposed in the CIA exposure draft align the SOP with the requirements of IFRS 17 and incorporate the guidance of ISAP 4. These developments require changes to the Canadian SOP, as the valuation methods under IFRS 17 are significantly different from the current methods of valuation of insurance contract liabilities in Canada.

The Actuarial Standards Board (ASB) published the following document in March 2020: [Revised Exposure Draft to Incorporate changes required by the adoption in Canada of IFRS 17 Insurance Contracts, including Principles of International Standard of Actuarial Practice 4 – Actuarial Practice in Relation to IFRS 17 Insurance Contracts, into the Canadian Standards of Practice](#).

The CIA is very active in this area, with several committees involved in reviewing the IFRS 17 standards and related guidance.

The CIA Committee on International Insurance Accounting (IIAC) under the International Affairs Council has the following mandate with regards to international accounting and actuarial standards for the valuation of insurance and related products:

- Monitor developments and ensure that news of relevant and material developments is dispersed appropriately within the CIA.
- Recommend where specific additional Canadian guidance may be helpful, and if so, assist in its development.
- Where relevant and appropriate, provide input from a CIA perspective to the international governing bodies.

### Guidance

The IAA is developing an International Actuarial Note (IAN 100). The CIA Standards and Guidance Council (SGC, now called the Actuarial Guidance Council (AGC)) has reviewed the

current exposure draft of IAN 100 and released it as a draft educational note [Application of IFRS 17 Insurance Contracts](#) in February 2019. This draft educational note is intended to assist CIA members in the application of IFRS 17.

Additional guidance to members has been developed by the CIA, in the form of educational notes and reports. At this time, the following guidance material have been published:

- Draft educational note: [IFRS 17 Discount Rates and Cash Flow Considerations for Property and Casualty Insurance Contracts](#) (August 2020)
- Draft educational note: [Assessing Eligibility for Premium Allocation Approach Under IFRS 17 for Property & Casualty and Life & Health Insurance](#) (July 2020)
- Draft educational note: [IFRS 17 Risk Adjustment for Non-Financial Risk for Property and Casualty Insurance Contracts](#) (May 2020)
- Draft educational note: [IFRS 17 – Actuarial Considerations Related to P&C Reinsurance Contracts Issued and Held](#) (April 2020)
- Draft educational note: [IFRS 17 – Compliance with IFRS 17 Applicable Guidance](#) (January 2020)
- Draft educational note: [IFRS 17 Estimates of Expected Loss Ratios for the Minimum Capital Test](#) (August 2019)
- Draft educational note: [Comparison of IFRS 17 to Current CIA Standards of Practice](#) (September 2018)

The following guidance material is currently being developed (expected to be published in 2021):

- Draft educational note: Liability for Remaining Coverage;
- Draft educational note: Fair Value (Joint working group with CLIFR);
- Report on expenses (Joint working group with CLIFR); and
- Report on disclosures (Joint working group with CLIFR).

The guiding principles for the development of educational notes and reports are:

- To consider Canadian-specific perspectives and address gaps in the IAN 100.
- Provide application guidance that is consistent with the IFRS 17 Standard and applicable Canadian actuarial SOP and educational notes, without unnecessarily narrowing the choices available in the IFRS 17 Standard.
- Consider practical implications associated with implementation of potential methods; in particular, ensure that due consideration is given to options that do not require undue cost and effort to implement.

The CIA is also engaged in educating members about IFRS 17, through webcasts, sessions at CIA meetings, and other forums. The CIA website has an [IFRS 17 blog](#) (log in required). This members-only resource center serves as a repository for everything about IFRS 17, including documents, links to important websites, and updates from the committees working to help members for this significant change. Moreover, the mandates of each of the subcommittees mentioned above can be found on the blog.

In February 2020, the CIA published [IFRS 17 and the Appointed Actuary in Canada](#), authored by the vice-chair of the Designated group on the role of the AA under IFRS 17. This was an article written by a CIA member and, therefore, does not constitute formal guidance. This document examines the impact of IFRS 17 on the Canadian actuarial profession and the role of the valuation or appointed actuary in insurance companies, which is driving an extensive review and revision of SOP beyond those previously exposed.

### **IFRS 9 Financial Instruments**

Most insurers will not adopt IFRS 9 until IFRS 17 becomes effective in 2023, however, some entities have already adopted IFRS 9, most notably those that are part of larger financial institutions, such as bank-owned insurers. For those entities, the actuary could have seen changes in the carrying value of assets that potentially affected the valuation.

### **Draft Regulatory Capital Requirements and Returns (IFRS 17)**

OSFI and the AMF have issued draft regulatory capital requirements guidelines. A first quantitative impact study (QIS), related to the draft MCT guideline was conducted in October 31, 2019. A second version of the draft MCT guideline and a second QIS is scheduled for October 2020. Data and comments collected from that exercise will be used to finalize decisions on policy issues, calibrate the MCT guideline capital requirements, and determine whether any transition measures are required. Draft P&C returns that have been adapted to reflect changes related to IFRS 17 have also been circulated to industry.

### **Considerations for FCT**

Based on the CRMCR [Guidance for the 2020 Reporting on Capital and Financial Condition Testing for Life and P&C Insurers](#) issued in April 2020:

“In principle, FCT forecasts beyond January 1, 2023 should be produced under IFRS 17 and the updated regulatory capital requirements guidelines. However, neither the regulatory capital requirement guidelines nor IFRS 17 are final (the IASB issued a revised exposure draft on June 26, 2019 and plan to publish the final version in the second quarter of 2020)<sup>1</sup>, and therefore insurers may not yet be able to produce reliable financial projections under IFRS 17. In these circumstances, an appropriate practice would be to continue to perform FCT in 2020 using the current accounting standards, actuarial standards, and current regulatory capital guidelines, with additional qualitative analysis on IFRS 17. Quantitative analysis could also be added if available. If quantitative impact studies reveal potential issues based on the new

<sup>1</sup> Note that the final IFRS 17 standards have been published in June 2020.



draft guideline in between filings of the FCT report, it would also be appropriate for the Appointed Actuary to describe these potential issues to the board or chief agent along with any potential mitigating actions, either in the FCT report or presentation, or through regular IFRS 17 updates.”

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