Canadian Institute of Actuaries
Institut canadien des actuaires

Educational Note

2021 Guidance to the Appointed Actuary and Valuation Actuaries of Property and Casualty Insurers

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2021 Guidance to the Appointed Actuary and Valuation Actuaries of Property and Casualty Insurers

Committee on Property and Casualty Insurance Financial Reporting

August 2021

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MEMORANDUM

To: Members in the property and casualty insurance practice area

From: Steven W. Easson, Chair
Actuarial Guidance Council

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

Date: September 1, 2021

Subject: **Educational Note – 2021 Guidance to the Appointed Actuary and Valuation Actuaries for Property and Casualty Insurers**

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 2021 year-end insurance contract liabilities and other responsibilities of the Appointed Actuary of property and casualty insurers.

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 PCFRC is satisfied it has sufficiently addressed the material comments received by the various committees and the AGC.

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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 August 25, 2021.

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.

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Table of Contents

1. Introduction *(modified)*

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 and other responsibilities of the Appointed Actuary and valuation actuaries (referred to as "actuaries" in the rest of this note). This educational note reviews relevant standards of practice (SOP) and other educational notes and discusses current issues affecting the work of actuaries. Links to all the CIA documents referenced in this educational note are provided in Appendix A.

2. Guidance to members on specific situations *(modified)*

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 and/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 CIA members.

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 and to the SOP correspond to the latest versions, effective December 1, 2020. There were no changes to Parts 1000 or 2000 during 2021.

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

- Subsection 1240 – Materiality
- Section 1400 – The Work
- Section 1500 – Another Person'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

4. Recent guidance *(modified)*

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 in the last 12 months and provide relevant guidance with respect to the FCT:

- Educational Note: *Guidance for the 2021 Reporting of Capital and Financial Condition Testing for Life, P&C, and Mortgage Insurers* (April 2021). This document is prepared annually by the Committee on Risk Management and Capital Requirements (CRMCR).

5. COVID-19 *(modified)*

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. Since then, a few waves of the pandemic have been observed in the different provinces of Canada and across the world, generating slowdowns in economic activities of different extents and magnitude.

As the COVID-19 situation continues to evolve, actuaries would pay close attention to all guidance and expectations from the Office of the Superintendent of Financial Institutions (OSFI), the Autorité des marchés financiers (AMF), and the CIA. In particular, OSFI is requiring insurance companies to report on a regular basis the statistics and impacts related to COVID-19. The actuaries may consider the data from these reports in their work related to the valuation of insurance contract liabilities and financial condition testing.

Actuaries would also pay close attention to all legislative changes that may impact estimates related to COVID-19. In particular, the Ontario government passed Bill 218 Supporting Ontario's Recovery Act, 2020, for which Schedule 1 may affect medical and other professional liabilities.

Actuaries would apply care and judgment on how COVID-19 has affected trends and key metrics. They would also consider the reporting expectations from the AMF and OSFI on the specific elements to be included in the actuarial reports. Wherever relevant, actuaries would comment in their reports about the impact that the COVID-19 pandemic has had on the insurer and the adjustments that were made in their policy liabilities valuation to take it into account. While the impact of COVID-19 might not always be easy to differentiate from other elements like favourable weather conditions, some elements like premium reductions and refunds, and the impact on the cost of material and labour may be easier to isolate.

To address issues stemming from COVID-19, OSFI and the AMF announced the following action with respect to MCT in their respective news releases on April 9, 2020:

- Approved premium payment deferrals will not increase capital requirements on outstanding premiums related to those deferrals.

OSFI and the AMF gradually phased out this measure in their news releases, respectively of August 31, 2020, and September 3, 2020. As of March 1, 2021, these measures were no longer applicable.

In 2020, the CIA had engaged in informing members about COVID-19, through a hub on its website. In 2021, the hub is no longer active and its contents have been moved to the Seeing Beyond Risk website. Of particular interest to P&C actuaries was an article written by PCFRC members in July 2020 to discuss special considerations due to COVID-19 (login required). While the content of the article is still relevant and worth considering by P&C actuaries, a new article (login required) containing updated or additional considerations in light of the year that has passed was published in September 2021. Both of these articles reflect the opinion of the authors and do not represent official guidance of the CIA.

6. Financial Condition Testing *(modified)*

The CRMCR published an educational note titled *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 by 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 April 2021, the CRMCR published an educational note titled *Guidance for the 2021 Reporting of Capital and Financial Condition Testing for Life, P&C, and Mortgage Insurers*. This educational note provides an overview of guidance to actuaries in several areas affecting the reporting of the 2021 regulatory capital requirements and financial condition testing for insurers operating in Canada. Section 5 of this educational note ("Considerations for the 2020 Financial Condition Testing (FCT)") contains key changes in the SOP: Section 2500, support for dealing with the upcoming changes due to IFRS 17 with respect to FCT forecasts, and special considerations due to COVID-19 for the 2021 FCT.

7. International Financial Reporting Standards 17 (IFRS 17) *(unchanged)*

There is no impact from IFRS 17 – Insurance Contracts on the 2021 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.

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

8. Regulatory guidance *(modified)*

Actuaries would 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. Of particular importance this year is the following comment: "The Appointed Actuary should disclose whether or not the company has exposure to mass tort and latent claims (including potential exposure emanating from residential schools), and if the company has had a subsequent event. If the company has such exposure, the Appointed Actuary should discuss the nature and treatment of those claims in the calculation of the provisions for unpaid liabilities."

Capital requirements

The MCT Guideline[1] 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. Capital guidelines for mortgage insurers can be found at Mortgage Insurer Capital Adequacy Test.

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 at least once every three years. However, OSFI expects material changes, if any, affecting the valuation of policy liabilities or ceded reinsurance assets to be reviewed and reported on annually. Otherwise, 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.

COVID-19 Measures – FAQs for Federally Regulated Insurers

OSFI has created a list of standardized responses to frequently asked questions for federally regulated insurers about measures it has taken to address issues stemming from COVID-19.

Future Policy Priorities

In May 2021, OSFI published their near-term plan of prudential policy for federally regulated financial institutions and federally regulated private pension plans. Among other things, this policy outlines OSFI's plans on publishing industry letters related to climate change and technology risk, as well as plans for IFRS-17-related guidance.

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 the FCT. The actuaries would consult these guides for the complete requirements from the AMF.

[1] 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 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.

The FCT guide 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.

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.

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

Earthquake Exposure Data Requirements

Actuaries would also be aware that starting in 2022, the AMF requires all authorized insurers to follow the AMF's instructions and to file the AMF's own Earthquake Exposure Data Form by May 31 of each year.

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), 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 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, actuaries would consider the potential impact, if any, of the proposed transition to a no-fault automobile insurance framework in British Columbia, changes to strata insurance in British Columbia, changes to the Occupier's Liability Act in Ontario, and changes to the Alberta automobile insurance product including: the definition of "minor injury," the changes to Pre-Judgment Interest, and the introduction of Direct Compensation Property Damage (DCPD).

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.

Actuaries would also consider any changes to the provincial or federal tax system or rates that need to be incorporated into the valuation of insurance contract liabilities 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 regional industry events may (e.g., the 2021 wildfires in British Columbia). The extent to which any event is significant in the context of the valuation of insurance contract liabilities for a specific insurer 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 *(modified)*

Weather-related disasters are occurring with greater frequency and magnitude than the industry has experienced in the past. In the transition period to the evolving 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. In January 2021, OSFI published the discussion paper *Navigating Uncertainty in Climate Change* in order to engage insurance companies and other stakeholders in a dialogue on the risks resulting from climate change that can affect them. It is expected that this dialogue might lead to future OSFI guidelines specific to climate change. In April 2021, the CIA's Committee on

Climate Change and Sustainability (CCSC) published a Practice Resource Document to support Canadian actuarial practitioners in building climate scenarios and developing best practices in assessing the financial risks associated with climate change. Whereas, there are no mandatory disclosure requirements for 2021, actuaries would consider keeping abreast of these developments. Additional resources from the CCSC can be found at https://www.cia-ica.ca/ccsc-resources.

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

- *Guidance for the 2021 Reporting of Capital and Financial Condition Testing for Life, P&C, and Mortgage Insurers* (April 2021)
- *Financial Condition Testing* (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 Seeing Beyond Risk) (including the content previously available on the CIA COVID-19 Hub

OSFI documentation

- *Memorandum to the AA* (August 2021)
- *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)
- Navigating Uncertainty in Climate Change (January 2021)
- COVID-19 Measures – FAQs for Federally Regulated Insurers (December 2020)
- OSFI's *Near-Term Plan of Prudential Policy for Federally Regulated Financial Institutions and Federally Regulated Private Pension Plans*

AMF documentation

- *Valuation of insurance contract liabilities* (September 2021)
- *Unpaid claims and loss ratio analysis exhibits* and *Instructions* (September 2021)
- *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* (January 2021)
- Earthquake Exposure *Data Form* and *Instructions* (June 2021)
- *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 June 2020, the International Accounting Standards Board (IASB) published the final standard for Insurance Contracts, IFRS 17. The implementation date will be fiscal years beginning on or after January 1, 2023. For the most current information please see the IASB website. Note that an eIFRS professional account is required to access the final standards and related documents.

The Canadian Accounting Standards Board has indicated its intention that 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 February 2021: *Second 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* (clean).

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 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 draft educational notes and reports. At this time, the following guidance material have been published:

- Revised draft educational note: *IFRS 17 Discount Rates and Cash Flow Considerations for Property and Casualty Insurance Contracts* (December 2020)
- Revised draft educational note: *Update to draft educational notes: Changes to the reference curves outlined in CLIFR's and PCFRC's draft educational notes on IFRS 17 discount rates* (June 2021)
- Revised draft educational note: *Assessing Eligibility for Premium Allocation Approach Under IFRS 17 for Property & Casualty and Life & Health Insurance* (December 2020)
- Revised draft educational note: *Comparison of IFRS 17 to Current CIA Standards of Practice* (November 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: *Liability for Remaining Coverage* (June 2021)
- Draft explanatory report: *IFRS 17 Expenses* (April 2021, Joint working group with CLIFR)

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

- Draft educational note: Fair Value (joint working group with CLIFR)
- Revised draft educational note: IFRS 17 Risk Adjustment for Non-Financial Risk for Property and Casualty Insurance Contracts
- Report on disclosures (joint working group with CLIFR)
- Report on Recoverability of Acquisition Expenses

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 (login required). This members-only resource centre 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.

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. There could also have been new credit loss provisions established by the accountants under IFRS 9; if so, the actuary would have taken steps to avoid any double-counting with the credit provisions included in the actuarial liability.

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 2019. A second version of the draft MCT guideline and a second QIS was conducted in the fall of 2020. A third QIS is currently being conducted for the summer/fall of 2021. 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. Final 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 2021 Reporting of Capital and Financial Condition Testing for Life and P&C Insurers* issued in April 2021:

> "In principle, FCT forecasts beyond January 1, 2023, should be produced under IFRS 17 and the updated regulatory capital requirement guidelines. However, the regulatory capital requirement guidelines are not final, and 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 2021 using the current accounting standards, actuarial standards, and current regulatory capital guidelines, with additional qualitative analysis on IFRS 17. Considerations for this qualitative analysis could include directional impacts associated with key items, such as but not limited to discount rates, risk adjustment and contractual service margin, under the IFRS 17 framework. Quantitative analysis could also be added if available. If Quantitative Impact Studies reveal potential issues from newly released versions of the regulatory capital requirement guidelines in between filings of the FCT report, it could 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. The actuary is

expected to enhance IFRS 17 analysis for FCT in 2022 in line with the development of industry practices and regulatory guidelines.”