Educational Note

2022 Guidance to the Appointed Actuary and Valuation Actuaries of Property and Casualty Insurers

Committee on Property and Casualty Insurance Financial Reporting

September 2022

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The actuary should be familiar with relevant educational notes. Educational notes are not binding; rather they are intended to illustrate the application of the standards of practice. A practice that an educational note describes for a situation is not necessarily the only accepted practice for that situation nor is it necessarily accepted practice for a different situation. Responsibility for ensuring that work is in accordance with accepted actuarial practice lies with the actuary. As accepted actuarial practice evolves, an educational note may no longer appropriately illustrate the application of standards. To assist the actuary, the CIA website contains a reference of pending changes to educational notes.

MEMORANDUM

To: Members in the property and casualty insurance practice area

From: Dean Newell, Chair
Actuarial Guidance Council

Simon Guénette, Chair
Committee on Property and Casualty Insurance Financial Reporting

Date: September 14, 2022

Subject: **Educational Note – 2022 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 2022 year-end insurance contract liabilities and other responsibilities of the Appointed Actuary of property and casualty insurers.

The educational note is structured in 10 sections and two appendices. The 10 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
- Committee on Risk Management and Capital Requirements (CRMCR)
- Committee on the Appointed/Valuation Actuary
- Committee on Workers' 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.

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 Canadian Institute of Actuaries' *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 the PCFRC and has received approval for distribution from the AGC on September 12, 2022.

Some guidance provided in the educational note titled *2021 Guidance to the Appointed Actuary and Valuation Actuaries for Property and Casualty Insurers* 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 the Chair of PCFRC (noted above) at guidance.feedback@cia-ica.ca.

DN, SG

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, with a particular emphasis on inflation this year. Links to all the CIA, Office of the Superintendent of Financial Institutions (OSFI), and Autorité des marches financiers (AMF) documents referenced in this educational note are provided in Appendix A.

2. Additional support to members on specific situations *(modified)*

CIA members may consult[1] in confidence with the Chair and/or Vice-Chair on questions relating to the Standards of Practice (SOP) and educational notes. This dialogue is encouraged; however, such discussions do not constitute a formal opinion as to whether the work in question is in compliance with the CIA SOP.

3. Standards of Practice *(unchanged)*

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 2022.

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

[1] Rule 13 (excerpt from the *CIA Rules of Professional Conduct*): "In order to foster education amongst members, thereby fulfilling the profession's responsibility to the public, a member who has a question about the spirit or intent of the standards of practice, or of generally accepted actuarial practice when no standards exist, may consult in confidence with the chair or vice-chair of a designated council… or of an appropriate practice committee."

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 note was published in the last 12 months and provides relevant guidance with respect to the FCT:

- Educational Note: *Guidance for the 2022 Reporting of Capital and Financial Condition Testing for Life, P&C, and Mortgage Insurers* (February 2022). This document is prepared annually by the CRMCR.

5. Inflation (*new section*)

Paragraph 2220.07 of the SOP states that the actuary would consider inflation change as a circumstance affecting assumption selection. This is particularly relevant this year as we are experiencing the highest level of year-over-year inflation since the eighties in Canada. It is important to note that an increase in the consumer price index (one of the most widely used measures of inflation) does not necessarily translate in a point-for-point increase in insurance loss costs.

In determining loss cost inflation assumptions, it would be beneficial to discuss with experts, such as underwriters, business analysts, fraud detection experts, and claim adjusters to understand whether loss cost inflation has already transpired in the recent claim payments and is accounted for in the latest case reserves. The actuaries may also consult external data sources related to inflation indices (e.g., CPI by geography/product/product group, average hourly wage rate by province and North American Industry Classification System, producer price indices by product).

In standard reserving development methods, the age-to-age factors sufficiently incorporate the effect of past loss cost inflation when historical inflation rates are stable. The effect of inflation on recent development periods may emerge more quickly and distinctly for short-tailed reserving segments than for long-tailed ones. Consequently, for long-tailed lines, the development method may not be appropriate when there are sudden changes in inflation rates.

The estimation of the effect of loss cost inflation on claim liabilities requires a high degree of judgment. To better grasp the impact of the variability of the underlying assumptions on claim liabilities, actuaries may consider performing sensitivity analyses using alternative sets of assumptions with regard to magnitude, path, and duration of loss cost inflation as well as payment patterns. The actuary may also consider the impact of inflation on other non-claim related costs and operating expenses.

6. COVID-19 *(modified)*

As the COVID-19 situation continues to evolve to become endemic with the lifting of restrictions and availability of vaccines, actuaries would pay close attention to all guidance and expectations from OSFI, AMF, and the CIA. In particular, OSFI is still requiring insurance companies to report statistics and impacts related to COVID-19 in the Appointed Actuary's Report. Actuaries may consider the data from these reports in their work related to the valuation of insurance contract liabilities and FCT. Actuaries would also continue to monitor the potential COVID-19 class actions related to business interruption and long-term care facilities and any other legal action that may have an impact on the valuation of contract liabilities.

Actuaries would apply care and judgment on how COVID-19 has affected trends and key metrics, especially given the changing economic environment. As a result, a longer-term view may be warranted to cover pre- and post-pandemic impacts. Whenever relevant, actuaries would comment in their reports on 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 on policy liabilities might not always be easy to differentiate from other elements such as favourable weather conditions, some factors including premium reductions and refunds and the impact on the cost of material and labour may be easier to isolate.

7. Financial condition testing *(modified)*

The CRMCR published an educational note titled *Financial Condition Testing* in April 2020 (2020 FCT EN). This educational note provides guidance on interpreting the revised SOP and summarizes the major changes from the prior guidance. It also addresses the goals of stress testing by providing details from OSFI and AMF guidelines. Appendix B of the 2020 FCT EN contains a discussion of various P&C risk categories to be considered by the actuaries while conducting the FCT.

In February 2022, the CRMCR published an educational note titled *Guidance for the 2022 Reporting of Capital and Financial Condition Testing for Life, P&C, and Mortgage Insurers* (2022 Capital and FCT EN). The 2022 Capital and FCT EN provides an overview of guidance to actuaries in several areas affecting the reporting of the 2022 regulatory capital requirements and FCT for insurers operating in Canada. Section 4 ("Considerations for the 2022 Financial Condition Testing (FCT)") of the 2022 Capital and FCT EN contains support for dealing with the upcoming changes due to IFRS 17 with respect to FCT forecasts, discussion on developing adverse scenarios for climate change, technology and cyber risks, and special considerations due to COVID-19 for the 2022 FCT.

8. International Financial Reporting Standards 17 (IFRS 17) *(modified)*

There is no impact from IFRS 17 *Insurance Contracts* on the 2022 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 (IASB) issued the final IFRS 17 Standard in June 2020 with an effective date of January 1, 2023.

In 2022, actuaries will actively participate in the calculation of amounts required to produce IFRS 17 financial statements as Canadian insurance companies work on OSFI's Transition Readiness Test (TRT) and prepare to file their first official P&C financial statements under IFRS 17 in 2023 including previous year comparative amounts. This parallel run calculation of financial results in 2022 (IFRS 17 + IFRS 4) is discussed in more detail in Appendix B.

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

9. Regulatory Guidance *(modified)*

Actuaries would refer to updated communications from provincial and/or federal insurance regulators regarding insurance contract liabilities valuation and FCT reporting.

9.1. 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.

For 2022, the cover letter to the memorandum states the following with respect to the filing of the COVID-19 data collection form:

> "For year-end 2022, COVID-19 data will be collected and is due at the same time as the Appointed Actuary's Report (AAR). The completed template should be sent to your OSFI Lead Supervisor by email. This reporting only applies to FRFIs with material COVID impacts and exposures for the lines of business noted in the COVID submission template (template to follow from Supervision Central Office). In addition, FRFIs are reminded to inform their Lead Supervisors should there be any significant changes to the COVID claims and exposures during the year."

In addition, the following topic was added in the 2021 memorandum: "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."

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 for publishing industry letters related to climate change and technology risk, as well as plans for IFRS-17-related guidance.

Regarding climate change risk, OSFI published a letter titled "Building Federally Regulated Financial Institution Awareness and Capability to Manage Climate-Related Financial Risks" in January 2022 that discusses OSFI's initiatives regarding climate change.

9.2. 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.

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.

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.

10. 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. Several considerations are discussed below.

10.1. Product Reforms *(unchanged)*

Actuaries would consider the potential effect that product reforms may have on the valuation of insurance contract liabilities. 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).

10.2. 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.

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.

In February 2022, the Russian Federation's invasion of Ukraine led to the still on-going war in Ukraine. The main global economic impacts of this war are rising food and energy prices and disrupted supply chains. These impacts are an important contributor to the high inflation rate we see in many countries including Canada (high inflation impact on valuation is discussed in Section 5 above). The war will likely also affect the investment portfolio rate of return of insurance companies as all the major stock exchanges around the world react to the developing situation. Specialty lines such as trade credit, marine and aviation, including war coverage, are expected to be the lines of business most exposed. It is difficult to assess the magnitude of the expected losses and the impact on terms and conditions of both reinsurance contracts as well as large single-risk primary contracts for multinational companies. Compounding the uncertainty associated with these lines of business is the difficulty in assessing the impact due to the ongoing war, including the uncertainty as to its duration and the specific changes in exposures due to the unique nature of some of these coverages. Actuaries would review the potential impact of the war on reinsurers' claims and on global reinsurers' capacity.

10.3. Catastrophic events *(modified)*

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 on a given insurer, while regional industry events may (e.g., the May 2022 derecho storm (windstorms + thunderstorms) in Québec and Ontario). 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.

Actuaries would consider the effect of extreme events on the following:

- Additional costs on non-catastrophic 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 future claims payments.
- 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.

10.4. 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 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. Between May 26 and September 30, 2022, OSFI held consultations on its published draft Guideline B-15: Climate Risk Management. This guideline proposes a prudential framework that is more climate sensitive, recognizes the impact of climate change on managing risk and sets the stage for OSFI's expectations of how federally regulated financial institutions should manage climate-related risks. OSFI plans to issue the final version of this guideline by early 2023.

While there are no mandatory disclosure requirements on climate change for 2022, 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 2022 Reporting of Capital and Financial Condition Testing for Life, P&C, and Mortgage Insurers* (February 2022)
- *Financial Condition Testing* (April 2020)
- *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 2022)
- Draft version of Guideline B-15 *Climate Risk Management* (May 2022)
- *Earthquake Exposure Data Form and instructions* (March 2020)
- 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* (May 2021)

AMF Documentation

- *Actuary's Guide on P&C Insurers Policy Liabilities* (September 2022)
- *Unpaid claims and loss ratio analysis exhibits* and *Instructions* (September 2022)
- *Actuary's guide regarding the Financial Condition Testing report of P&C Insurers* (January 2022)
- Earthquake Exposure *Data Form* and *Instructions* (June 2021)

Appendix B – IFRS 17

The following information discusses the development of SOP, guidance, parallel run calculations in 2022 and considerations for FCT under IFRS 17. IFRS 9 is also briefly discussed.

Standards of Practice

In June 2020, the IASB published the final IFRS 17 Standard, Insurance Contracts. 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 endorsed and incorporated IFRS 17 into Canadian GAAP 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 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 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 standard and related guidance.

Guidance

In 2021, the IAA published the final version of an International Actuarial Note (IAN 100) titled Application of IFRS 17 *Insurance Contracts*. The CIA AGC has reviewed the final IAN 100 and released it as an educational note titled *Application of IFRS 17 Insurance Contracts* in October 2021. This educational note is accompanied by a preamble that outlines a number of additional clarifications on the topics discussed in the IAN 100, of which CIA members should be aware.

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

- Educational Note: *Actuarial Considerations Related to Property and Casualty Valuation Work Not Subject to IFRS 17* (August 2022)
- Educational note: *Assessing Eligibility for Premium Allocation Approach Under IFRS 17 for Property & Casualty and Life & Health Insurance* (June 2022)

- Educational note: *IFRS 17 – Actuarial Considerations Related to Liability for Remaining Coverage in P&C Insurance Contracts* (June 2022)
- Educational note: *IFRS 17 Risk Adjustment for Non-Financial Risk for Property and Casualty Insurance Contracts* (June 2022)
- Educational note: *IFRS 17 Discount Rates and Cash Flow Considerations for Property and Casualty Insurance Contracts* (June 2022)
- Educational note: *Comparison of IFRS 17 to Current CIA Standards of Practice* (June 2022)
- Educational note: *IFRS 17 – Fair Value of Insurance Contracts* (June 2022)
- Explanatory report: *IFRS 17 Expenses* (June 2022)
- Explanatory report: *IFRS 17 Assets for Acquisition Cash Flows* (June 2022)
- Educational note: *IFRS 17 – Actuarial Considerations Related to P&C Reinsurance Contracts Issued and Held* (September 2022)
- Draft educational note: *IFRS 17 – Compliance with IFRS 17 Applicable Guidance* (January 2020)

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 with this significant change.

Parallel Run Calculations in 2022

A parallel run of both IFRS 4 and IFRS 17 financial statements must be prepared in each quarter of 2022. Moreover, OSFI is conducting a Transition Readiness Test in September 2022 to evaluate the ability of federally regulated insurers to submit selected schedules of the core and quarterly P&C Return and the quarterly capital return. Companies are expected to submit Q1-2022 statements using their IFRS 17 and IFRS 9 accounting policies by the end of September 2022.

Actuaries should be instrumental in the determination of the opening figures. Given that the final published P&C financial statements during 2023 will require prior period (2022) restated (IFRS 17) amounts, companies will need to produce IFRS 17 financial statements for each financial quarters of 2022, including an opening balance as of January 1, 2022. These 2022 financial statements will be used to produce the liability roll forward exhibits during 2023.

It is important to note that the actuaries will need to be fully comfortable with the 2023 opening figures to opine on the fair presentation of the liabilities for 2023 when the 2023 IFRS 17 financial statement is published. However, PCFRC members believe that the AA will not be required to opine on the comparison figures in the financial statement and so at transition, it is expected that the opinion will not encompass January 1, 2022 figures that will be included in the prior period "Roll forward" exhibits, unless those figures impact the valuation at Dec 31, 2023 (e.g. GMA, OCI transition).

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.

Considerations for FCT

Based on the CRMCR *Guidance for the 2022 Reporting of Capital and Financial Condition Testing for Life and P&C Insurers* issued in February 2022:

> In principle, FCT forecasts beyond the effective date would be produced under IFRS 17 and the updated regulatory capital requirement guidelines.
>
> In practice, the actuary may face a number of challenges in preparing financial projections reflecting IFRS 17 and updated capital requirements for the 2022 process, such as:
>
> - Accounting and actuarial policies and methodologies may not be final and potential choices might have material impacts on the financial projections;
> - Actuarial models and financial reporting systems development may not be complete, producing practical limitations on the actuary's ability to produce financial projections;
> - The company's latest business forecast may not project certain cash flows or assumptions needed under IFRS 17, requiring the actuary to calibrate additional assumptions over the forecast period;
> - Regulatory capital guidelines may not be finalized; and

- Tax and other parameters that affect the projections may not be finalized.

The actuary would perform FCT in 2022 either using IFRS 17 throughout the projection period, or using the current accounting standards, actuarial standards, and current regulatory capital guidelines, together with additional quantitative and qualitative analysis on IFRS 17. An FCT performed under the current accounting standards and supplemented only with a qualitative analysis on IFRS 17 would not be an acceptable practice[2].

The quantitative analysis of IFRS 17 would be performed on a best effort basis and using working assumptions for guidelines and internal decisions that may not be final at the time of the FCT analysis. Working assumptions would be described in the report with a focus on areas of material sensitivity in relation to the FCT results.

The actuary would clearly disclose the basis under which the projections were produced, the regulatory capital requirements guideline used, the key assumptions made regarding the application of IFRS 17 and the taxation of earnings, and the sensitivity of results to material decisions and assumptions.

[2] Unless regulatory guidance states otherwise. For example, IFRS 17 qualitative discussion only would be sufficient to comply with the AMF requirements for Quebec chartered P&C insurers 2022 FCT reporting.