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EDUCATIONAL NOTE

Guidance for the 2023 Valuation of Insurance Contract Liabilities of Life Insurers

August 22, 2023



Guidance for the 2023 Valuation of Insurance Contract Liabilities of Life Insurers

Committee on Life Insurance Financial Reporting

The Committee on Life Insurance Financial Reporting would like to acknowledge the contribution of the members of the subcommittee that assisted in the development of this educational note: Ping-Teng Lin (Chair) and Will Featherstonhaugh.

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Ce document est disponible en français.

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.

Contents

- Preamble 4
- 1. COVID-19 (*modified*) 5
- 2. Experience studies (*modified*) 5
- 3. Economic assumptions (*modified*) 6
- 4. International Financial Reporting Standards (*modified*) 7
- 5. Regulatory guidance (*new*) 8
- 6. Capital (*slightly modified*) 9
- Appendix A: CIA Guidance 10
- Appendix B: Considerations for IFRS 4 valuations in 2023 15

Preamble

The Committee on Life Insurance Financial Reporting (CLIFR) has prepared this educational note to provide guidance to actuaries in several areas affecting the valuation of the 2023 year-end insurance contract liabilities and other responsibilities of valuation actuaries of life insurers. In addition, this educational note provides an update on recently published experience studies and relevant valuation considerations for the current reporting year.

This educational note is structured into six sections and two appendices. The sections provide content on the following topics:

- COVID-19
- Experience studies
- Economic assumptions
- International Financial Reporting Standards
- Regulatory Guidance
- Capital

Appendix A contains a list of relevant educational notes and research papers, sorted by topic area. Appendix B retains considerations for practitioners that will be preparing IFRS 4 valuations for 2023.

Process

A preliminary version of this educational note was shared with the following committees:

- Property and Casualty Financial Reporting Committee (PCFRC)
- Committee on Risk Management and Capital Requirements (CRMCR)
- Appointed Actuary Committee
- Committee on Workers' Compensation.

This educational note was also presented to the Actuarial Guidance Council (AGC) in the months preceding its approval. CLIFR and its subcommittee are satisfied that they have sufficiently addressed the material comments received by the various committees.

The creation of this memorandum and educational note has followed the AGC protocol for the adoption of educational notes. In accordance with the CIA'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 CLIFR and has received approval for distribution from the AGC on August 18, 2023.

Guidance to members on specific situations

CIA members may consult¹ 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.

¹ Rule 13 (excerpt): "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."

Recent Standards of Practice revisions and CLIFR Guidance

The following revisions to the Standards of Practice have been approved recently:

- [Standards of Practice \(effective January 1, 2023\)](#)
 - Changes to Part 1000 and Part 2000 of the Standard of Practice required by the adoption of IFRS 17 in Canada.

CIA publications can be found on the CIA website under [Publications](#). A list of relevant educational notes and research papers can be found in Appendix A.

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. The 2022 version of this document can also be found in Appendix A.

Your Feedback

Questions or comments regarding this educational note may be directed to the [chair of the CLIFR](#).

1. COVID-19 (modified)

In May 2023, the World Health Organization announced that, while COVID-19 continues to be a global health threat, the pandemic no longer qualifies as a global emergency. Nevertheless, the challenges facing actuaries continue to evolve.

Beginning in October 2020, the CIA and representatives of several Canadian life insurance companies published six research reports assessing COVID's impact on the industry. The [October 2022 report](#) is intended to be the final report in the series. During the last three years, companies may have made short-term adjustments to valuation assumptions. The actuary would review the continued appropriateness of any such valuation adjustments with the general resumption of normal activities and the pandemic status being lifted.

Another emerging challenge area relates to experience studies. With three years of actual experience since the pandemic's inception, the actuary may need to assess how to best incorporate the 2020 to 2022 exposure years into the experience studies. This decision may at least partially be based on the actuary's judgment on the long-term impact of the COVID-19 pandemic. The long-term effects of COVID are still largely unknown but could impact future mortality and morbidity experience. For example, future incidences of certain illnesses may rise due to the deferral of medical examinations during the pandemic lockdown.

While it may be too early to draw conclusions, such considerations may be useful context when analyzing future experiences. The actuary would be encouraged to analyze and review the ripple effects of the pandemic as they assess the continued appropriateness of their current processes, methods, and assumptions. Each actuary would need to take the necessary steps to determine and introduce changes if required.

2. Experience studies (modified)

The various research committees of the CIA Research Council have published the following studies since the beginning of 2022:

- Canadian Mortality Table – [CIA2014 – A Mortality Table Constructed from the CIA Individual Insurance Data of Policy Years 2009–2019](#) (April 2022)

Report on the new Canadian individual life mortality tables (CIA2014) using experience from policy years 2009 through 2019 and adjusted with improvement to be applicable to January 1, 2014. The select period is 20 years.

- Canadian Mortality Table – [Canadian Mortality Table Construction Alternative Methods – Generalized Additive Model and Neural Network Model](#) (May 2022)

Report on alternative methods to construct mortality tables based on the same 2009-2019 industry data used in the construction of the CIA2014 tables.

- Mortality Study – [Canadian Individual Life Experience for Policy Year 2019-2020](#) (August 2022)

This annual study covers the mortality experience of Canadian individual life insurance policies for the policy year 2019-2020. The study covers the one-year period beginning with the policy anniversary in 2019 on an age-nearest-birthday basis.

- Mortality Study – [Canadian Individual Life Experience for Policy Year 2020-2021](#) (June 2023)

This annual study covers the mortality experience of Canadian individual life insurance policies for the policy year 2020-2021. The study covers the one-year period beginning with the policy anniversary in 2020 on an age-nearest-birthday basis. There is also more information on COVID-19 mortality experience included in the study.

The following studies are scheduled for publication in the near future:

- Review of the 2017 mortality improvement scale for life insurance and annuity mortality
 - The CIA established a Project Oversight Group (POG) to review the 2017 mortality improvement scale with the intention of deriving a revised basis. The review started in 2020, with publication targeted for early-2024.
- Critical Illness (CI) morbidity study
 - This will be a refresh of the 2019 intercompany morbidity experience study for Canadian individual CI insurance policies with more recent data. The publication is expected in Fall 2023.

The following research studies have been placed on hold:

- Individual annuity mortality study refreshing the 2017 study
- Universal life yearly renewable term cost of insurance lapse study

3. Economic assumptions (*modified*)

Inflation (modified)

Since 2021, observed inflation rates in Canada increased significantly. The actuary may wish to review the appropriateness of the valuation inflation assumption.

Considerations related to the inflation assumption will depend on whether the valuation is conducted under IFRS 4 or 17. For the IFRS 4 valuation, the rate of inflation is expected to be internally consistent with the Canadian Asset Liability Method (CALM) interest rate scenario ([SOP 2330.02 from January 1, 2020](#)). The inflation assumption under IFRS 17 is expected to be consistent with observable market prices grading to an ultimate long-term assumption.

Under IFRS 17, inflation can be seen as either a non-financial or financial risk. Benefit payments that are tied to market inflation indices are an example of a financial risk. On the other hand, projected inflation on expense cashflows is considered a non-financial risk. Generally, expense inflation is expected to be more

stable than inflation tied to benefits, as the latter is likely to be linked to known indices based on a broad range of goods and services.

The actuary may also want to consider other indirect impacts that inflation may have on other assumptions. An example could be policyholder behaviour regarding disposable income and/or the perceived value of their insurance coverage.

Ultimate Risk-Free Rate (new)

Due to recent fluctuations in the economic environment, a CLIFR subcommittee was formed to review the derivation methodology for the ultimate risk-free-rate (URFR) used by the CIA IFRS 17 reference curves. Based on the new approach, the URFR to be effective on October 15, 2023, would remain at 3.65%. More details on the methodology can be found in the educational note supplement: [Changes to the Reference Curves' Ultimate Risk-free Rate Development Approach Outlined in the Committee on Life Insurance Financial Reporting's Educational Note on IFRS 17 Discount Rates](#).

4. International Financial Reporting Standards (modified)

In June 2020, the International Accounting Standards Board (IASB) published the final standard for insurance contracts, IFRS 17, effective for annual periods beginning on or after January 1, 2023². The Canadian Accounting Standards Board adopted IFRS 17 without modification for the valuation of insurance contracts in Canadian generally accepted accounting principles financial statements.

The actuary will be required to perform the fiscal year-end valuation under the new accounting standard and should be fully aware of all changes related to IFRS 17. Accordingly, the ASB approved [Final Standards – Changes Required by the Adoption in Canada of IFRS 17 \(Insurance Contracts\)](#) with an effective date on or after January 1, 2023.

These educational notes from the AGC are of broad interest on the transition to IFRS 17:

- [Comparison of IFRS 17 to Current CIA Standards of Practice](#) highlights the key differences between the CALM and IFRS 17, which was published in final form in June 2022. The note was prepared by the CIA Committee on International Insurance Accounting (IIAC).
- [Application of IFRS 17 Insurance Contracts \(IAN 100\)](#) outlines the many consideration topics of the IFRS 17 valuation. The note was developed by the [International Actuarial Association](#) and released in October 2021.
- [Role of the Appointed Actuary Under IFRS 17](#) addresses questions that Appointed Actuaries (AA) may have on fulfilling their duties and responsibilities under the new reporting standard.

CLIFR and its subcommittees published educational notes to provide guidance for life insurance practitioners that supplement international actuarial notes. The guiding principles followed by the subcommittees were as follows:

- First and foremost, consider Canadian-specific perspectives rather than simply repeating international actuarial guidance.
- Provide application guidance that is consistent with the IFRS 17 standard and applicable Canadian actuarial standards of practice and educational notes, without unnecessarily narrowing the policy choices available in the IFRS 17 Standard.

² According to IFRS Paragraph C1, "An entity shall apply IFRS 17 for annual reporting periods beginning on or after 1 January 2023." This means that an entity that has an annual reporting period starting later in 2023 will have an effective date after January 1, 2023.

- Consider practical implications associated with the 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 final educational notes are listed below:

- [IFRS 17 Risk Adjustment for Non-Financial Risk for Life and Health Insurance Contracts](#)
- [IFRS 17 Estimates of Future Cash Flows for Life and Health Insurance Contracts](#)
- [IFRS 17 Coverage Units for Life and Health Insurance Contracts](#)
- [IFRS 17 Market Consistent Valuation of Financial Guarantees for Life and Health Insurance Contracts](#)
- [IFRS 17 Discount Rates for Life and Health Insurance Contracts](#)
- [Assessing Eligibility for Premium Allocation Approach Under IFRS 17 for Property & Casualty and Life & Health Insurance](#)³
- [IFRS 17 Measurement and Presentation of Canadian Participating Insurance Contracts](#)
- [IFRS 17 Fair Value of Insurance Contracts](#)

The following IFRS 17 explanatory reports are intended to provide information concerning specific topics within the IFRS 17 requirements. They do not attempt to propose that the specific illustrations of practice are intended to be followed.

- [IFRS 17 Expenses](#)³
- [IFRS 17 Assets for Acquisition Cash Flows](#)³
- [IFRS 17 Discount Rate Applications](#)

For practitioners that will be still applying IFRS 4 for fiscal year reporting in calendar year 2023, **Appendix B: 2023 CALM guidance for investment assumptions** will be of relevance as it relates to CALM investment assumptions during the transition period.

5. Regulatory guidance (new)

OSFI Guideline E-15: Guidance on the Peer Review of the Work of the Actuary (new)

A revised Guideline E-15 was published in the Summer of 2023. The focus of the revisions was:

1. To update the guideline for the implementation of IFRS 17; and,
2. To clarify the expectations on the peer review of the actuarial components of the capital tests and the use of audit firms as peer reviewers.

As stated in Guideline E-15, “OSFI expects any material changes affecting the valuation of actuarial and other policy liabilities, FCT [financial condition testing], or actuarial components of the regulatory capital test to be reviewed and reported on annually.” This would include those material changes in valuation that arise from the implementation of IFRS 17 which might include risk adjustment and discount rates. In the context of FCT, material changes might include items such as model changes, the projections of CSM [contractual service margin], and the projections of cost of guarantees.

³ These are joint CLIFR and PCFRC publications.

With respect to the peer review cycle, while OSFI encourages and supports full reviews, OSFI is not requiring full reviews of all the AA's work for all insurers this year. For the peer review of the Appointed Actuary's Report, OSFI is not requiring insurers to alter the normal peer review cycle, given that material changes in valuation are expected to be reviewed each year. For the peer review of the FCT report, OSFI expects insurers to conduct a full review in either year 2023 or year 2024. However, if year 2023 is originally planned for a full review, then the one-year deferral of the full review will not apply. A formal communication will be sent out to insurers later this year by OSFI.

OSFI Guideline E-16: Guidance on Par Account Management and Disclosures (new)

In January 2023, OSFI published a revised Guideline E-16, "[Participating Account Management and Disclosure to Participating Policyholders and Adjustable Policyholders](#)". Guideline E-16 pertains to the requirements for the management of participating and adjustable policies, as found in the Insurance Companies Act (ICA) and Policyholder Disclosure Regulations.

OSFI's stated objectives in making revisions to Guideline E-16 were to provide additional clarification of their expectations, to aid companies in their interpretation of the ICA and Regulations and to facilitate greater consistency of practice across the industry. OSFI also provided additional guidance on the disclosure requirements of the Regulations, to promote greater transparency and consistency.

Updates to two educational notes related to participating insurance are expected to be published later in 2023 ("Guidance on Fairness Opinions Required under the Insurance Companies Act" and "Dividend Determination for Participating Policies"). The changes to the educational notes will reflect the revisions made by OSFI and provide guidance to the actuary on how to address these changes. Moreover, the changes to the educational notes relate to participating insurance only. No changes to the sections of the educational notes pertaining to adjustable policies are anticipated.

6. Capital (*slightly modified*)

The CRMCR publishes an annual educational note that provides an overview of guidance relevant for capital and risk management purposes, including updates to guidelines and/or CIA guidance on the Life Insurance Capital Adequacy Test (LICAT)/Capital Adequacy Requirements Guideline – Insurance of Persons (CARLI), FCT and Own Risk and Solvency Assessment (ORSA).

This educational note includes links to relevant capital educational notes, regulatory guidelines, and other useful references. It also covers introductory information about potential changes in regulatory capital reporting. The 2023 version ([Guidance for the 2023 Reporting of Capital and Financial Condition Testing for Life, P&C, and Mortgage Insurers](#)) was released in April 2023.

Appendix A: CIA Guidance

The following link contains the current Standards of Practice of the Canadian Institute of Actuaries, as well as archived standards: [Standards of Practice \(cia-ica.ca\)](https://cia-ica.ca). Please note that there is an ongoing initiative by CLIFR to review existing educational notes and reports for continued relevance. Documents may be slightly modified, completely re-written or archived based on necessity. This appendix will be updated in future memoranda as the documents are published.

Accession Number	Title	Publication Date
General		
223127	Educational note: Subsequent Events	August 10, 2023
219120	Research paper: The Application of Credibility Theory in the Canadian Life Insurance Industry	November 6, 2019
217007	Educational note: Use of Models	January 26, 2017
209125	Educational note: Accounting for Reinsurance Contracts under International Financial Reporting Standards	December 11, 2009
209058	Educational note: Current Estimates under International Financial Reporting Standards	June 25, 2009
209057	Educational note: Measurement of Investment Contracts and Service Contracts under International Financial Reporting Standards	June 25, 2009
210088	Research paper: IFRS Disclosure Requirements for Life Insurers	December 13, 2010
210086	Educational note: Valuation of Gross Policy Liabilities and Reinsurance Recoverables	December 1, 2010
206147	Educational note: Use of Actuarial Judgment in Setting Assumptions and Margins for Adverse Deviations	November 30, 2006
206132	Educational note: Margins for Adverse Deviations	November 8, 2006
223045	Educational note: Applicability of Rules, Standards, and Other Guidance to CIA Members	February 16, 2023
20169	Research paper: Use of Stochastic Techniques to Value Actuarial Liabilities Under Canadian GAAP	August 15, 2001
Economic and CALM		
221066	Revised educational note supplement: Calibration of Stochastic Risk-Free Interest Rate Models for Use in CALM Valuation	June 24, 2021
219078	Final Communication of Updated Promulgations of the Ultimate Reinvestment Rates and Calibration Criteria for Stochastic Risk-Free Interest Rates in the Standards of Practice for the Valuation of Insurance Contract Liabilities: Life and Health (Accident and Sickness) Insurance (Subsection 2330)	July 3, 2019
218091	Explanatory report: Development of the Ultimate Reinvestment Rates	June 26, 2018

Accession Number	Title	Publication Date
217081	Final Communication of Updated Promulgations of the Ultimate Reinvestment Rates and Calibration Criteria for Stochastic Risk-Free Interest Rates in the Standards of Practice for the Valuation of Insurance Contract Liabilities: Life and Health (Accident and Sickness) Insurance (Subsection 2330)	July 30, 2017
217080	Final Communication of a Promulgation of Calibration Criteria for Equity Investment Returns Referenced in the Standards of Practice for the Valuation of Insurance Contract Liabilities: Life and Health (Accident and Sickness) Insurance (Subsection 2370)	July 28, 2017
217055	Research Paper: Calibration of Equity Returns and Volatility for Stochastic Models	May 17, 2017
215111	Educational note supplement: Development of the Equilibrium Risk-Free Market Curve for the Base Scenario	December 17, 2015
215111T	Educational note supplement: Development of the Equilibrium Risk-Free Market Curve for the Base Scenario: Excel File	December 17, 2015
215072	Revised educational note: Investment Assumptions Used in the Valuation of Life and Health Insurance Contract Liabilities	September 16, 2015
214109	Research paper: Development of New Prescribed Interest Rate Scenarios for CALM Valuations	October 10, 2014
214096	Final Communication of a Promulgation of Calibration Criteria for Investment Returns Referenced in the Standards of Practice for the Valuation of Insurance Contract Liabilities: Life and Health (Accident and Sickness) Insurance (Subsection 2360) (Fixed Income Returns)	August 21, 2014
214046	Final Communication of Promulgations of the Maximum Net Credit Spread, Ultimate Reinvestment Rates, and Calibration Criteria for Stochastic Risk-Free Interest Rates in the Standards of Practice for the Valuation of Insurance Contract Liabilities: Life and Health (Accident and Sickness) Insurance (Subsection 2330 of the Final Standards for Revisions to the Standards of Practice)	May 15, 2014
211027	Educational note: Investment Return Assumptions for Non-Fixed Income Assets for Life Insurers	March 1, 2011
209121	Educational note: Currency Risk in the Valuation of Policy Liabilities for Life and Health Insurers	December 2, 2009
206133	Educational note: Approximations to Canadian Asset Liability Method (CALM)	November 8, 2006
206077	Educational note: CALM Implications of AcSB Section 3855 Financial Instruments – Recognition and Measurement	June 7, 2006
203106	Educational note: Selection of Interest Rate Models	December 16, 2003
203083	Educational note: Aggregation and Allocation of Policy Liabilities	September 15, 2003

Accession Number	Title	Publication Date
Segregated Funds		
214034	Research paper: Calibration of Fixed-Income Returns for Segregated Fund Liability	April 11, 2014
212027	Educational note: Reflection of Hedging in Segregated Fund Valuation	May 10, 2012
210053	Report: Report of the Task Force on Segregated Fund Liability and Capital Methodologies	August 11, 2010
207109	Educational note: Considerations in the Valuation of Segregated Fund Products	November 22, 2007
205111	Educational note: Valuation of Segregated Fund Investment Guarantees (Revised)	October 26, 2005
202012	Final report: CIA Task Force on Segregated Fund Investment Guarantees	March 6, 2002
Universal Life		
212012	Educational note: Valuation of Universal Life Insurance Contract Liabilities	February 28, 2012
Mortality and Mortality Improvement		
217097	Task Force Report on Mortality Improvement (Final)	September 20, 2017
217097T	Task Force Report on Mortality Improvement (Final) – Excel File	September 20, 2017
217079	Final Communication of a Promulgation of Prescribed Mortality Improvement Rates and Associated Margins for Adverse Deviations within the Practice-Specific Standards on Insurance Contract Valuation: Life and Health (Accident and Sickness) Insurance (Subsection 2350) and the Accompanying Promulgation	July 30, 2017
217079T	Final Communication of a Promulgation of Prescribed Mortality Improvement Rates and Associated Margins for Adverse Deviations within the Practice-Specific Standards on Insurance Contract Valuation: Life and Health (Accident and Sickness) Insurance (Subsection 2350) and the Accompanying Promulgation – Excel Workbook	July 30, 2017
217054	Research Paper on Mortality Improvement Promulgation	May 17, 2017
217054T	Research Paper on Mortality Improvement Promulgation - Excel File	May 17, 2017
210065	Research paper: Mortality Improvement Research Paper	September 23, 2010
202037	Educational note: Expected Mortality: Fully Underwritten Canadian Individual Life Insurance Policies	July 8, 2002

Accession Number	Title	Publication Date
Living Benefits		
218034	Research paper: Model of Long-Term Health Care Cost Trends in Canada	March 14, 2018
Group Life and Health		
210069	Educational note: Sources of Earnings Calculations – Group Life and Health	October 7, 2010
210034	Educational note: Valuation of Group Life and Health Policy Liabilities	June 4, 2010
Lapse		
217019	Educational note supplement: Selective Lapsation for Renewable Term Insurance Products	February 16, 2017
217019t	Educational note supplement: Selective Lapsation for Renewable Term Insurance Products – Illustration of Methods	February 16, 2017
Par and Adjustable		
214008	Educational note: Dividend Determination for Participating Policies	January 9, 2014
211123	Educational note: Guidance on Fairness Opinions Required Under the Insurance Companies Act Pursuant to Bill C-57 (2005)	December 14, 2011
Tax and Expenses		
212096	Educational note: Future Income and Alternative Taxes	December 17, 2012
208004	Educational note: Implications of Proposed Revisions to Income Tax Legislation (Nov 7, 2007 Department of Finance Proposal)	January 23, 2008
206134	Educational note: Best Estimate Assumptions for Expenses	November 8, 2006
Guidance for the Valuation of Insurance Contract Liabilities of Life Insurers		
222117	Educational note: Guidance for the 2022 Valuation of Insurance Contract Liabilities of Life Insurers	August 16, 2022
IFRS 17		
222092	Educational note: IFRS 17 – Actuarial Considerations Related to Liability for Remaining Coverage in P&C Insurance Contracts	June 30, 2022

Accession Number	Title	Publication Date
222093	Educational note: IFRS 17 Measurement and Presentation of Canadian Participating Insurance Contracts	June 30, 2022
222091	Educational note: Assessing Eligibility for the Premium Allocation Approach Under IFRS 17 for Property & Casualty and Life & Health Insurance Contracts	June 30, 2022
222094	Educational note: Comparison of IFRS 17 to Current CIA Standards of Practice	June 30, 2022
222097	Educational note: IFRS 17 Discount Rates for Life and Health Insurance Contracts	June 30, 2022
222073	Educational note: IFRS 17 Market Consistent Valuation of Financial Guarantees for Life and Health Insurance Contracts	June 30, 2022
223121	Educational note supplement: Changes to the Reference Curves' Ultimate Risk-free Rate Development Approach Outlined in the Committee on Life Insurance Financial Reporting's Educational Note on IFRS 17 Discount Rates	July 12, 2023
222175	Educational note: IFRS 17 Coverage Units for Life and Health Insurance Contracts	December 18, 2022
222088	Educational Note: IFRS 17 Fair Value of Insurance Contracts	June 30, 2022
222085	Educational note: IFRS 17 Estimates of Future Cash Flows for Life and Health Insurance Contracts	June 30, 2022
222095	Explanatory Report: IFRS 17 Expenses	June 30, 2022
222096	Explanatory Report: IFRS 17 Assets for Acquisition Cash Flows	June 30, 2022
223054	Explanatory Report: IFRS 17 Discount Rate Applications	March 24, 2023
222090	Educational note: IFRS 17 Risk Adjustment for Non-Financial Risk for Life and Health Insurance Contracts	June 30, 2022
221117	Educational note: Application of IFRS 17 Insurance Contracts	October 21, 2021
Guidance for Reporting of Capital and Financial Condition Testing for Life, P&C, and Mortgage Insurers		
223095	Educational note: Life Insurance Capital Adequacy Test (LICAT) and Capital Adequacy Requirements for Life and Health Insurance (CARLI)	May 17, 2023
223062	Educational note: Guidance for the 2023 Reporting of Capital and Financial Condition Testing for Life, P&C, and Mortgage Insurers	April 13, 2023

Appendix B: Considerations for IFRS 4 valuations in 2023

The following information is retained for practitioners reporting under IFRS 4 in 2023, and is mostly unchanged from last year’s guidance. This section will be obsolete after December 31, 2023.

Life insurance and annuity mortality

There have been no changes in standards regarding life and annuity mortality. The most recent promulgation occurred in 2017.

The actuary is reminded that, on July 30, 2017, the Actuarial Standards Board (ASB) published a [Final Communication of a Promulgation of Prescribed Mortality Improvement Rates Referenced in the Standards of Practice for the Valuation of Insurance Contract Liabilities: Life and Health \(Accident and Sickness\) Insurance \(Subsection 2350\)](#) with an effective date of October 30, 2017.

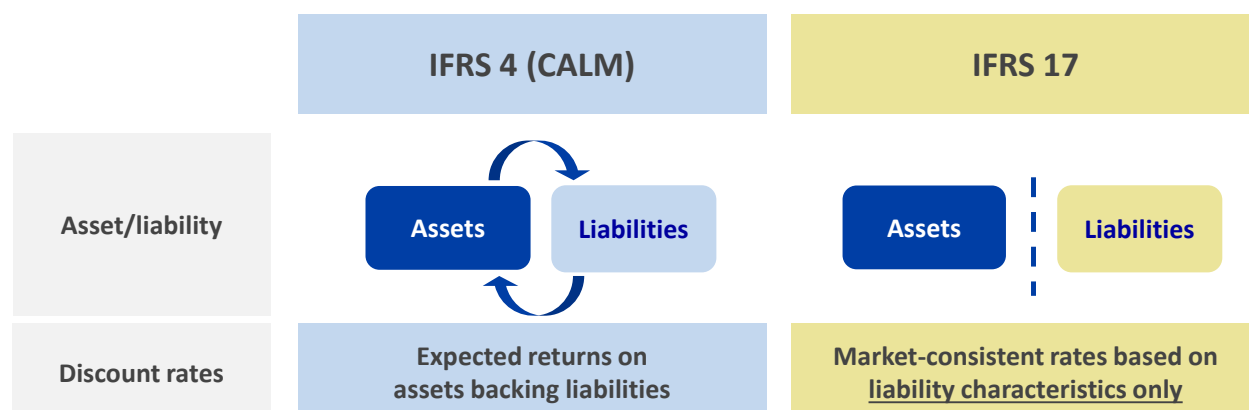
Calibration criteria for risk-free interest rate models used in CALM valuation

CLIFR updated the calibration criteria for stochastic risk-free interest rate models, and published a [revised educational note supplement](#) in June 2021. The [final promulgation](#) was published in June 2021, and the effective date was October 15, 2021.

Included in the revised educational note supplement are updates to the guidance for the long-term (term to maturity of 20 years and longer) risk-free interest rate and for the short-term (one-year maturity) risk-free interest rate, medium-term (five to ten-year maturity) risk-free interest rates, and the slope of the yield curve. The previous exercise considered data to mid-year 2018, while the most recent study updated the data to mid-year 2020, but otherwise preserved the methodology applied in the previous educational note supplement from 2019.

2023 CALM guidance for investment assumptions

A key change when moving from IFRS 4 to IFRS 17 is how assets are reflected in the measurement of insurance contract liabilities.



As a result of this foundational change, insurers may adjust their investment strategies when moving from IFRS 4 to IFRS 17.

Although IFRS 17 is effective January 1, 2023⁴, companies making changes to their investment strategies may choose to transition to them prior to the implementation of IFRS 17. This will allow a more gradual

⁴ According to IFRS Paragraph C1, “An entity shall apply IFRS 17 for annual reporting periods beginning on or after 1 January 2023.” This means that an entity that has an annual reporting period starting later in 2023 will have an effective date after January 1st, 2023.

transition in asset holdings rather than an immediate shift upon the transition date of IFRS 17. The latter may not be possible (or desirable) depending on the volume of trading activity and/or asset class (e.g., non-fixed income, fixed income) involved.

First and foremost, it is important to note that a Canadian Asset Liability Method (CALM) valuation starts with current assets backing liabilities and that any interpretations to the SOP only apply to CALM reinvestment/disinvestment assumptions.

Prior to the IFRS 17 effective date, where CALM valuation still applies, some companies may make changes to their investment strategy in order to prepare for IFRS 17. These changes may impact their CALM results. The statement “investment strategy for each scenario would be consistent with the insurer’s current investment policy and would be consistent with the insurer’s expected practice” within the SOP (2330.05⁵) requires additional interpretation given the unique situation where an entity’s investment strategy is changing as a result of the adoption of IFRS 17.

The insurer’s expected practice is dependent on the context of the situation. The two interpretations could be:

- 1) The “investment strategy” and “expected practice” would be consistent with the accounting regime under which this testing is being completed (i.e., assume that the CALM regime persists). Therefore, any changes to an insurer’s investment strategy due to IFRS 17 should be excluded, and thus the CALM valuation would assume a rebalancing of the portfolio to the IFRS 4 investment strategy⁶.
- 2) The “investment strategy” and “expected practice” would be independent of the accounting regime. Therefore, the CALM valuation should reflect the change to the investment strategy as a result of the adoption of IFRS 17⁷.

When the SOP was written, it likely did not anticipate a fundamental change such as IFRS 17. Although the SOP could lead to two interpretations, it is important to note the importance of exercising reasonable judgment as outlined in SOP 1140.01, and thus either of these interpretations may be reasonable.

Simple example

The following example is for an entity preparing their IFRS 4 valuations with a fiscal year-end of December 31, 2022.

An entity currently has an investment strategy under IFRS 4 with a target investment of 10% of assets invested in Canadian equity. The actual amount of investment in Canadian equity may be different (e.g., due to market movements) than the 10% at a reporting date. The entity’s CALM valuation assumes that they rebalance to their 10% target over a one-year period.

The entity is planning to reduce its investment in Canadian equity from 10% of assets to 5% of assets due to IFRS 17. Although they will not be reporting under IFRS 17 until 2023, they plan on starting to divest from 10% down to 5% evenly over 2022 to avoid a large asset rebalancing at the start of 2023.

Under interpretation 1, the entity would maintain the 10% target within the CALM valuation since the actuary’s view is that IFRS 17 investment strategy changes should be excluded, and thus the CALM valuation would assume a rebalancing of the portfolio to the IFRS 4 investment strategy. If the actual

⁵ This refers to the [SOP Section 2000](#) dated January 1, 2020.

⁶ IFRS 4 investment strategy: The insurer’s investment strategy consistent with their expected practice assuming IFRS 4 persists.

⁷ IFRS 17 investment strategy: The insurer’s revised investment strategy consistent with their expected practice under IFRS 17.

Canadian equity holdings were different than the 10% at the reporting date, the entity would continue to assume that they would transition back to their 10% target over a one-year period⁸ within their CALM valuation. This is consistent with the current investment strategy under IFRS 4 and CALM modeling practices.

Under interpretation 2, the entity would transition to the 5% target within the CALM valuation since the actuary views the CALM valuation should reflect the change to the investment strategy as a result of the adoption of IFRS 17 (i.e., the “investment strategy” and “expected practice” should be independent of the accounting regime).

⁸ The actuary would have to judge whether the one-year transition period would be reasonable depending on the nature of the trading activity required to re-balance.



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