

Educational Note

Valuation of Segregated Fund Investment Guarantees (Revised)

Committee on Life Insurance Financial Reporting

October 2005

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Educational Notes do not constitute standards of practice. They are intended to assist actuaries in applying standards of practice in respect of specific matters. Responsibility for the manner of application of standards in specific circumstances remains that of the practitioner.

Memorandum

To: All Fellows, Affiliates, Associates and Correspondents of the Canadian Institute of Actuaries

From: Micheline Dionne, Chairperson
Committee on Life Insurance Financial Reporting

Date: October 26, 2005

Subject: **Educational Note on Valuation of Segregated Fund Investment Guarantees (Revised)**

The Committee on Life Insurance Financial Reporting (CLIFR) has revised the Educational Note on Valuation of Segregated Fund Investment Guarantees to recognize the changes brought by the Canadian regulatory authorities on the Total Balance Sheet Requirements (TBSR) for Segregated Funds. CLIFR understands that changes made to the TBSR are not fundamental changes in methodology but rather an update in parameters used with more current information and an improvement in the lapse rate assumption.

In accordance with the Institute's policy for Due Process, this "Educational Note on Valuation of Segregated Fund Investment Guarantees" has been approved by the Committee on Life Insurance Financial Reporting, and has received final approval for distribution by the Practice Standards Council on October 19, 2005.

Section 1220 of the Standards of Practice prescribes that "The actuary should be familiar with relevant educational notes and other designated educational material." It further explains that a "practice which the notes describe for a situation is not necessarily the only accepted practice for that situation and is not necessarily accepted actuarial practice for a different situation." As well, "educational notes are intended to illustrate the application (but not necessarily the only application) of the standards, so there should be no conflict between them."

Questions should be addressed to me at my *Yearbook* address.

MD

Valuation of Segregated Fund Investment Guarantees

For valuation of the general account policy liability associated with segregated fund guarantees, it is appropriate to establish the policy liability for the guarantee element using stochastic techniques.

The CIA (CLIFR) advises the actuary applying stochastic techniques to value segregated fund guarantees to review the papers on “*Use of Stochastic Techniques to Value Liabilities under Canadian GAAP*” (August 2001) and “*Report: CIA Task Force on Segregated Fund Investment Guarantees*” (March 2002). While these are research papers, and therefore do not represent standards of practice, or even illustrations or expansions of standards of practice (as with educational notes), these documents are a valuable guide to the application of these techniques in a Canadian GAAP valuation environment.

The CIA (CLIFR) recognizes there may be situations where the exposure to this risk is immaterial, and a simpler approach is warranted. The recommended approach for determining the policy liability under such circumstances is to use the CTE 80 factors produced by the Canadian regulatory authorities.