# *Final*

# Standards of Practice – Practice-Specific Standards for Insurers Section 2100

## Practice Standards Council

**Revised October 1, 2006**

**June 2006**

Document 206075

*Ce document est disponible en français*

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# Memorandum

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

**From:** John Brierley, Chairperson
Practice Standards Council

Claudette Cantin, Chairperson
Committee on Property and Casualty Insurance Financial Reporting

Micheline Dionne, Chairperson
Committee on Life Insurance Financial Reporting

**Date:** June 7, 2006

**Subject:** **Revisions to the Standards of Practice – Practice-Specific Standards for Insurers, Section 2100, All Insurance**

The Committee on Life Insurance Financial Reporting (CLIFR), jointly with the Committee on Property and Casualty Financial Reporting (PCFRC), proposed revisions to the current Standards of Practice – Practice-Specific Standards for Insurers Section 2100 (SOP) in an exposure draft released January 2006. A comment period was provided up to March 15, 2006.

The purpose of the revision to the current Standards of Practice is to provide improved guidance on establishing appropriate margins for adverse deviations. In particular, paragraph 2130.43 prohibits the use of margins for adverse deviations as a mechanism to absorb recent changes in observed experience, such as changes caused by statistical fluctuations.

Comments received were made to improve the Standards without significantly changing the content of the revisions that were proposed. They have been taken into consideration.

In accordance with the Institute's policy for Due Process, this revision has been approved by CLIFR and PCFRC and received final approval for distribution by the Practice Standards Council on May 17, 2006. The effective date of this revision to the SOP is October 1, 2006. Early implementation is encouraged.

JB, CC and MD

# 2000—INSURERS

# 2100 VALUATION OF POLICY LIABILITIES: ALL INSURANCE

## 2110 SCOPE

.01 The standards in sections 2100, 2200 and 2300 apply to the valuation of the policy liabilities in an insurer's financial statements if the intent is that those statements be in accordance with generally accepted accounting principles. The standards in Part 2000 do not apply to post-employment benefit plans covered by the Practice-Specific Standards for Post-Employment Benefit Plans and do not apply to personal injury compensation plans covered by the Practice-Specific Standards for Public Personal Injury Compensation Plans.

.02 The standards in this section 2100 apply to all kinds of insurance. The standards in sections 2200 and 2300 following apply respectively to

property and casualty insurance; that is, to insurance with respect to property (for example, fire and marine insurance), to insurance with respect to the actions of individuals and corporations (for example, liability and fidelity insurance), and to insurance with respect to both (for example, automobile insurance), and 2200

life and health insurance (accident and sickness); that is, to insurance with respect to the life and health of persons other than corporations. 2300

.03 Sometimes, however, techniques described in one section may be useful for the insurance to which the other section applies. For example, while a simple technique is usually appropriate for valuation of life and health insurance claim liabilities, the more sophisticated techniques for valuation of property and casualty insurance claim liabilities may be appropriate for life and health insurance whose claim development is complex. Another example is that a simple technique may be appropriate for travel insurance and other short-term policies sold by property and casualty insurers.

## 2120 *EXTENSION OF SCOPE*

.01 The standards in section 2100, 2200 and 2300 also apply to financial statements of a quasi-insurer if the intent is that those statements be in accordance with generally accepted accounting principles. The actuary would modify the standards to take account of any substantive difference between that quasi-insurer and an insurer; for example, the quasi-insurer's liabilities may be permitted to be less than fully funded. That report would describe the modifications to the standards and their implications.

.02 In part 2000, "quasi-insurer" means an entity which assumes risks which an insurer may assume, without having the legal form of an insurer. Examples of a quasi-insurer are 2130.21

a federal or provincial crown corporation or agency acting in a capacity similar to a property and casualty insurer,

a reciprocal insurance exchange,

a provider of extended warranties,

a self-funding mechanism, such as a facility association, and

a charity or not-for-profit organization that issues "self-insured" gift annuities.

.03 The standards in part 2000 may also provide useful guidance for an actuary's report on the valuation of liabilities for an enterprise which is not an insurer but whose operations include benefits which an insurer may provide. 2110.02

.04 The standards in part 2000 may also provide guidance for a valuation in accordance with a different basis of accounting; for example, where the policy liabilities are calculated in accordance with regulatory prescription which differs from accepted actuarial practice and generally accepted accounting principles.

## 2130 METHOD

*.01* *The actuary should value the policy liabilities for the balance sheet and the change in those liabilities for the income statement.*

*.02* *The actuary should co-ordinate the valuation with the insurer's accounting policy as respects the choice between going concern and wind-up accounting, and so that the policy liabilities and other items in the balance sheet*

*are consistent,*

*avoid omission and double counting, and*

*conform to the presentation of the income statement.*

*.03* *The relevant policies for the valuation are those which are in force, including those whose issue is then committed, at the balance sheet date, or which were in force earlier and which will generate cash flow after the balance sheet date.*

.04 *The policy liabilities in respect of each of the relevant policies should comprise the net cash flow after the balance sheet date from the premiums, benefits, claims, expenses, and taxes which are incurred during the term of its liabilities.* 2210.02 2320.04

*.05* *The comprised cash flow should include the effect of*

*retrospective premium, commission, and similar adjustments,*

*experience rating refunds,*

*reinsurance ceded,*

*subrogation and salvage,*

*the exercise of policyholder options, and*

*the deemed termination at the end of the term of its liabilities of each policy then in force.*

.06 *The valuation should take account of the time value of money.* [Effective Januray 1, 2003]

.061 *The actuary should ensure that the application of a margin for adverse deviations results in an increase to the value of the liability net of reinsurance. The provision resulting from the application of all margins for adverse deviations, in addition to increasing the net liability, should be appropriate in the aggregate.* [Effective October 1, 2006]

**Definitions**

.07 "Policy" includes a financial instrument which is substantively like a policy, such as a reinsurance agreement or an annuity contract, and includes a commitment to issue a policy.

.08 "Policyholder" includes an individual insured under a group policy, a claimant, a beneficiary, an applicant for a policy, and a customer of a non-insurance service deemed to be a policy.

.09 "Premiums" include income equivalent to premiums, such as management fees, and cost of insurance charges.

**The insurer's accounting policy**

.10 The preparers of the financial statements make a choice between going concern and wind-up 1450
accounting. The actuary would conform the valuation to that choice. If the actuary believes the choice to be inappropriate, then, after consultation with the auditor, he or she would so report. Going concern accounting is appropriate for an insurer that is expected to remain open to new business and in satisfactory financial position indefinitely. Going concern accounting is also appropriate for an insurer which is expected to become closed to new business, but to continue in a satisfactory financial position, either indefinitely or until an increase in capital, combination with another insurer in a satisfactory financial condition, or transfer of its policies to such an insurer brings financial relief.

.11 Use of the terms "policy liabilities," "premium liabilities," and "claim liabilities" is desirable in financial statements, but the choice of their terminology and their itemisation is a management decision. What matters is that the actuary identify, value, and report on all the policy liabilities, whatever they may be called in the financial statements. The classification between premium and claim liabilities is usually evident but is in any case less important than assurance that **all** policy liabilities have been identified and valued.

.12 Policy liabilities consist of premium liabilities and claim liabilities. Claim liabilities are those in respect of cash flow after the balance sheet date from benefits and claims incurred on or before that date, and their related expenses and taxes; i.e., all of the cash flow, excluding the portion paid before the balance sheet date. Premium liabilities are those in respect of all other cash flow; i.e., that from premiums, benefits, claims, and their related expenses and taxes, incurred after the balance sheet date.

.13 The policy liabilities reported in the insurer's balance sheet may be either net of the value of recoveries which are expected from reinsurance ceded or gross of that value. In the latter case, the value of the expected reinsurance recoveries is recorded as an asset. Fair presentation of the reported policy liabilities requires the amount of that asset to be appropriate. The recovery on account of reinsurance ceded would take account of not only the reinsurer's share of claims but also reinsurance commissions, allowances, and retrospective premium adjustments. 2130.01

.14 The policy liabilities reported in the insurer's balance sheet exclude deposit liabilities of segregated funds but include any related liabilities of the general fund, such as a liability for capital guarantees of amounts in segregated funds.

.15 The insurer's accounting policy may report amounts related to the relevant policies and the assets which support their policy liabilities, such as

> deposit liabilities (for example, policyholder dividends on deposit),
>
> incurred but unpaid items (for example, taxes incurred but not paid and policyholder dividends due but not paid),
>
> future tax liabilities and assets (for example, those in connection with the timing differences between accounting and tax liabilities),
>
> unamortized realized capital gains,
>
> receivables from, payables to, and deposits by reinsurers,
>
> the offset to gross liabilities on account of reinsurance ceded and retroceded,
>
> amounts recoverable from policyholders,
>
> asset impairment, and
>
> deferred policy acquisition expenses,

either as part of the policy liabilities or as separate items in the balance sheet or as a mixture of the two. The actuary would value the policy liabilities so that,

> in the aggregate, the policy liabilities and those separate items are consistent and avoid omission and double counting, and
>
> the separate reporting of those items does not affect the insurer's capital (i.e., assets minus liabilities).

.16 As respects consistency, the actuary would, for example, ensure that the policy liabilities

> provide for any risk of asset depreciation (C-1 risk) and of interest rate change (C-3 risk) for any deposit liabilities which the actuary did not value and which are separately reported without such provision, and
>
> provide consistently for cash flow gross of reinsurance and reinsurance cash flow, except that reinsurance cash flow would also take account of the financial condition of the reinsurer.

.17 As respects double counting and omission, the actuary would, for example, ensure that

> the same assets are not allocated twice to support liabilities, and
>
> provision for asset depreciation (C-1 risk) in valuing the policy liabilities does not duplicate any provision for asset depreciation deducted from the asset side of the balance sheet.

**Relevant policies**

.18 The relevant policies for the valuation are those which are in force at the balance sheet date, including those whose issue is then committed, or which were in force earlier and which will generate cash flow after the balance sheet date. There are no policy liabilities in respect of other policies expected to be issued after that date, whether or not they are expected to be profitable.

.19 There usually are both premium liabilities and claim liabilities in respect of policies which are in force at the balance sheet date.

.20 There may be claim liabilities in respect of policies which are not in force at the balance sheet date as a result of outstanding claims incurred while they were in force. There may be premium liabilities in respect of those policies as a result of the right of policyholders to reinstate them, or of their unpaid

> retrospective premium, commission, and similar adjustments,
>
> experience rating refunds,
>
> reinsurance ceded, and
>
> subrogation and salvage.

**Term of the Liabilities**

.21 The term of the liabilities of a property and casualty insurance policy ends at its expiry, which usually is within one year of the balance sheet date, unless for example

> the policy has been cancelled, in which case that term ends at the effective date of cancellation, or
>
> the contractual term of the policy exceeds one year; for example, an extended warranty policy which provides coverage for several years after expiry of the basic warranty.

Paragraphs 2320.16 through 2320.27 provide guidance on determination of the term of the liabilities of a life or health insurance policy. 2320.16 2320.27

**Cash flow comprised in the policy liabilities**

.22 The policy liabilities in respect of a relevant policy comprise all of that policy's cash flow after the balance sheet date, except for cash flow from premiums, benefits, claims, expenses, and taxes which are **incurred** after the term of the policy's liabilities.

.23 The tax cash flow is limited to that generated by premiums, benefits, claims, and expenses, and by the assets which support policy liabilities. The expense cash flow is limited to that generated by the relevant policies, including overhead allocations. The tax and expense cash flow exclude, for example, tax on investment income from, and the investment expense of, assets which support capital.

.24 The comprised cash flow for a policy may extend beyond the term of its liabilities as a result of lag between incurral and the resultant cash flow. The extension may be prolonged, for example, for a claim payable in instalments under long term disability insurance, and a claim under product liability insurance which has a long settlement period.

**Retrospective premium, commission, and similar adjustments**

.25 In determining the value of a contractual right of the insurer to future premiums which depend on past claims experience, the actuary would take account of credit risk of the policyholder.

**Experience rating refunds**

.26 The liability for experience rating refunds would take account of

> the assumptions in calculating the policy liabilities in respect of those matters which determine experience rating refunds,
>
> the difference between the basis for policy liabilities and the corresponding basis in the experience rating, and
>
> any cross-rating across coverages in the experience rating.

.27 The experience rating refund element of the policy liabilities would include provision for adverse deviations only for

> risk of misestimation (C-2 risk) of interest rates and risk of interest rate change (C-3 risk) and uncertainty in the calculation of the experience rating refund.

.28 The experience rating refund element of the policy liabilities would not be negative except to the extent that in settlement it may be offset against another liability or recovered from policyholders.

.29 Where an insurer holds an asset for an accrued experience rating deficit, the actuary would test the appropriateness and recoverability of the receivable amount using the valuation assumptions and methodology for experience rating refunds, and make an adjustment to the policy liabilities if necessary.

**Reinsurance ceded and retroceded**

.30 The recovery on account of reinsurance ceded would take account of the financial condition of the reinsurer.

.31 The actuary would assume that the insurer and the reinsurer each exercises its control over recapture, cancellation or commutation to its advantage.

.32 The sign (positive or negative) of an assumption's margin for adverse deviations may depend 1740.48
on that assumption's effect on recapture, cancellation or commutation.

**Subrogation and salvage**

.33 The actuary would either net subrogation and salvage amounts against claims or value them as a separate item, depending on the insurer's accounting policy.

**Exercise of policyholder options**

.34 Examples of policyholder options are

the conversion of group insurance or individual term insurance,

the election of a settlement option in individual life insurance,

the purchase of additional insurance or coverage without underwriting, and

the selection of the amount of premiums for universal life insurance.

### Deemed termination of remaining policies

.35 The comprised cash flow in respect of a policy which is deemed to terminate at the end of the term of its liabilities would include any amount then payable by the insurer in the event of its termination, modified to take account of the fact that the termination is deemed and not actual. For example, the modification would

forego a surrender charge deducted at an actual termination from the policy's account value to calculate its cash value,

forego a deduction at an actual termination from the policy's unearned premium to calculate its premium refund, and

anticipate a persistency bonus becoming payable at a date after the end of the term of the policy's liabilities if the policy remains in force to that date.

### Time value of money

.36 In this context, "supporting assets" means the insurer's assets and asset commitments which support its policy liabilities.

.37 To take account of the time value of money is to express the year-by-year forecast of the cash flow comprised in the policy liabilities as an equivalent single amount at the balance sheet date. There are two methods of doing so – the Canadian asset liability method and the actuarial present value method. In the Canadian asset liability method, the amount of the policy liabilities is the amount of their supporting assets which reduce to zero at the last liability cash flow in the forecast of the cash flow from the assets and liabilities. The Canadian asset liability method is a "roll forward" method applicable to any scenario. The actuarial present value method is a "pull backward" method which produces the same result as the Canadian asset liability method for a particular scenario if present value factors, $v^t$, exist which replicate the investment return assumptions of that scenario. Such factors do not exist for complex scenarios; for example, a scenario which includes a spike in mortgage lending rates in forecast year 5. 2320

.38 The discount rates or the forecast of supporting assets, as the case may be, would take account of

the supporting assets at the balance sheet date and the insurer's policy for asset-liability management after that date and/or

assumptions about investment return after the balance sheet date.

.39 The actuary would value the policy liabilities so that, in the aggregate, they and the other policy-related items in the balance sheet take account of the time value of money.

.40 In some cases, applicable regulation requires policy liabilities to be valued without taking account of the time value of money; i.e., to be valued as the sum of, rather than the present value of, the cash flow after the balance sheet date. For such a case, the actuary would make a dual valuation of policy liabilities:

A in accordance with accepted actuarial practice, and

B in accordance with accepted actuarial practice but not taking account of the time value of money, with the provision for adverse deviations appropriately reduced.

.41 If A is acceptable under the applicable regulation (which would usually be the case if A is greater than or equal to B), then the actuary would report A without reservation on account of the regulation.

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.42 If A is not acceptable under the applicable regulation (which would usually be the case if A is less than B), then the actuary would report B with reservation.

**Margin for adverse deviations**

.43 The margin for adverse deviations reflects the degree of uncertainty of the best estimate assumption. This uncertainty results from the risk of misestimation of and deterioration from the best estimate assumption. The potential for misestimation is greater when the past experience has been more volatile and hence would justify a greater margin. However, the margin for adverse deviations would be based on a forward-looking assessment of the expected experience and would not act as a mechanism to absorb changes in observed experience, such as changes caused by statistical fluctuations.

## 2140 REPORTING

*.01* *The actuary's report should describe*

*the valuation and presentation of policy liabilities for the insurer's balance sheet and income statement,*

*the actuary's opinion on the appropriateness of those liabilities and on the fairness of their presentation, and*

*the actuary's role in the preparation of the insurer's financial statements if that role is not described in those statements or their accompanying management discussion and analysis.*

.02 *If*

> *the financial statements (or their accompanying management discussion and analysis) describe the actuary's role in their preparation, and*
>
> *the actuary can report without reservation,*

*then the actuary's report should conform to the standard reporting language, consisting of* 1810 2140.17

> *a scope paragraph, which describes the actuary's work, and*
>
> *an opinion paragraph, which gives the actuary's favourable opinion on the valuation and its presentation.*

.03 *If not, the actuary should modify the standard reporting language to report with reservation.* [Effective January 1, 2003]

**Accounting in the balance sheet**

.04 The amount of the policy liabilities is usually the largest amount in the balance sheet, so that its itemisation is desirable.

.05 The reference to "policy liabilities" in the standard reporting language is adequate if

> the notes to the financial statements or their accompanying management discussion and analysis verbally define "policy liabilities", or
>
> the balance sheet presents their total amount as a separate item.

**Accounting in the income statement**

.06 The standard reporting language implies that the income statement accounts for the total change in the policy liabilities during the accounting period. That accounting is direct in the case of a life insurer's actuarial liabilities, whose change is presented as a separate item in the income statement. That accounting is indirect in the case of other policy liabilities, because their change is not separately presented, but is included within other items in the income statement. For example, the item, incurred claims, equals

> claims and claim expenses paid during the accounting period, plus
>
> claim liabilities (which are part of the policy liabilities) at the end of the accounting period, minus
>
> claim liabilities at the beginning of the accounting period.

**Disclosure of unusual situations**

.07 The items that the actuary values for the financial statements may be misleading if the financial statements do not present them fairly. The actuary's report is a signal to the reader of the financial statements that there is, or is not, fair presentation.

.08 In an unusual situation, fair presentation may require explanation of an item which the actuary values for the financial statements. Usually, the notes to the financial statements would provide that explanation, including, where appropriate, disclosure of the situation's effect on income and capital. Failing such explanation, the actuary would provide it by a reservation in reporting.

.09 The question, "Will explanation enhance the user's understanding of the insurer's financial position?" may help the actuary to identify such a situation. Unusual situations may include

- capital appropriated on the actuary's advice,
- off-balance-sheet obligations, for example, contingent policy liabilities in connection with market conduct,
- restatement of items for preceding accounting periods,
- the impracticality of restating any items which are reported in current period financial statements and which were reported inconsistently in preceding period financial statements, 1750.05
- inconsistency among accounting periods, 1750.05 2140.11
- an unusual relationship between the items in current period financial statements and the expected corresponding items in future period financial statements,
- a change in the method of valuation which does not have an effect in the current accounting period but which is expected to have an effect in future accounting periods,
- allocation of expense or investment income to a participating account (if reported in the financial statements) other than in accordance with the method approved by the actuary and the insurer's board of directors,
- a subsequent event, and 1520
- a difference between the insurer's present practice and that which the actuary assumed in valuing the policy liabilities.

.10 An example of the last item is the actuary's assumption of a policy for setting dividend scales which differs from the insurer's current policy. The actuary would not, however, report the assumption of a dividend **scale** which is in accordance with an unchanged dividend **policy**. The same applies to a difference between current and assumed policy for setting non-guaranteed cash value scales and premium rates for adjustable policies.

## Consistency among accounting periods

.11 Financial statements usually report results for one or more preceding accounting periods in addition to those for the current period. Meaningful comparability requires the financial statement items for the various periods to be consistent through the restatement of preceding period items if they were inconsistently reported in the preceding period financial statements. A less desirable alternative to restatement is disclosure of the inconsistency.

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.12 A change in the method of valuation creates an inconsistency. If a change in the assumptions for valuation reflects a change in the expected outlook, then it does not create an inconsistency although, if its effect is major, then fair presentation may require its disclosure.

.13 A change in assumptions which results from the application of new standards may create an inconsistency.

## Communication with the auditor

.14 Communication with the auditor is desirable at various stages of the actuary's work. These include

- use of work in accordance with the CIA/CICA *Joint Policy Statement*, 1630
- the drafting of common features in the auditor's report and actuary's report, 1520
- the drafting of a report with reservations,
- the presentation of the policy liabilities, and
- the treatment of subsequent events.

## Description of the actuary's role

.15 The actuary would report a description of his or her role in the preparation of the insurer's financial statements only if the financial statements or their accompanying management discussion and analysis do not provide that description.

.16 Here is an illustrative description:

"The Appointed Actuary is

appointed by the [Board of Directors] of [the Company];

responsible for ensuring that the assumptions and methods for the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation, and associated regulations and directives;

required to provide an opinion on the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations of [the Company]. The work to form that opinion includes an examination of the sufficiency and reliability of policy data and an analysis of the ability of the assets to support the policy liabilities; and

required each year to analyse the financial condition of the company and prepare a report for the [Board of Directors]. The analysis tests the capital adequacy of the company until [31 December xxxx] under adverse economic and business conditions."

### Standard reporting language

.17 Here is the standard reporting language:

**Appointed Actuary's Report**

To the policyholders [and shareholders] of [the ABC Insurance Company]:

I have valued the policy liabilities of [the Company] for its [consolidated] balance sheet at [31 December XXXX] and their change in the statement of income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the [consolidated] financial statements fairly present the results of the valuation.

[Montréal, Québec] [Mary F. Roe] 1820.29
[Report date] Fellow, Canadian Institute of Actuaries

.18 The language in square brackets is variable and other language may be adjusted to conform to interim financial statements and to the terminology and presentation in the financial statements.

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.19 An auditor's report usually accompanies the financial statements. Uniformity of common features in the two reports will avoid confusion to readers of the financial statements. Those common features include:

> Addressees. Usually, the actuary addresses the report to the policyholders of a mutual insurer and to both the policyholders and shareholders of a stock insurer.
>
> Years referenced. Usually, the actuary's report refers only to the current year, even though financial statements usually present results for both the current and prior years.
>
> Report date. If the two reports have the same date, then they would take account of the same subsequent events.

**Reservations in reporting**

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.20 The examples which follow are illustrative.

**Quasi-insurer**

.21 Here is an example of a report for a quasi-insurer:

> I have valued the outstanding claim liabilities of [the Professional Indemnity Plan] for its balance sheet at [31 December XXXX] in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.
>
> As explained in Note [XX], the [Plan's] liabilities are not fully funded.
>
> In my opinion, and having regard for Note [XX], the amount of policy liabilities makes appropriate provision for all of the [Plan's] outstanding claims and the financial statements fairly present the results of the valuation.

Note [XX] would quantify and describe the actuary's assumptions with respect to the asset shortfall, describe the plan, if any, for its funding, and explain its implications for the financial security of participants and claimants.

**New appointment**

.22 A newly appointed actuary who is unable to use the predecessor actuary's work, but who has no reason to doubt its appropriateness, would modify the standard reporting language as follows:

> I have valued the policy liabilities of [the Company] for its [consolidated] balance sheet at [31 December XXXX] and, except as noted in the following paragraph, their change in the statement of income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.
>
> I became the [appointed actuary] during the year and was unable to confirm the appropriateness of the valuation for the preceding year.
>
> In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the [consolidated] financial statements fairly present the results of the valuation. For the reason stated in the previous paragraph, I am unable to say whether or not those results are consistent with those for the preceding year.

.23 If the actuary doubts the appropriateness of the predecessor actuary's work as a result of a review of it, then the actuary would consider a more serious reservation.

**Impracticality of restatement**

.24 The actuary would if necessary restate the preceding year valuation to be consistent with the current year valuation. If it is not practical to restate the preceding year valuation, then the actuary would modify the opinion paragraph in the standard reporting language as follows:

> As explained in Note [XX], the method of valuation for the current year differs from that for the preceding year. In my opinion, except for that lack of consistency, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the [consolidated] financial statements fairly present the results of the valuation.

.25 Note [XX] would usually explain the change in the basis of valuation, explain the impracticality of applying the new basis retroactively, and disclose the effect of the change on the opening equity at the beginning of the preceding year.

### Valuation does not take account of time value of money

.26 If a regulation that policy liabilities be valued without taking account of the time value of money requires a reservation, then the actuary would modify the standard reporting language as follows:

> I have valued the policy liabilities of [the Company] for its [consolidated] balance sheet at [31 December xxxx] and their change in the statement of income for the year then ended in accordance with accepted actuarial practice, including the selection of appropriate assumptions and methods, except as described in the following paragraph.
>
> In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Pursuant to the authority granted by the *Insurance Companies Act*, the Superintendent of Financial Institutions has directed that the valuation of some policy liabilities not reflect the time value of money. My valuation complies with that directive.
>
> In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations, except as noted in the previous paragraph, and the [consolidated] financial statements fairly present the results of the valuation.

### Takeover of insurer with poor records

.27 If the insurer took over another insurer with poor records, then the actuary would modify the standard reporting language as follows:

> I have valued the policy liabilities of [the Company] for its [consolidated] balance sheet at [31 December XXXX] and their change in the statement of income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.
>
> During the year, [the Company] took over the assets, liabilities, and policies of [WWW Insurer], whose policy records are, in my opinion, unreliable. [The Company] is making but has not completed the necessary improvements. My valuation with respect to the policies taken over from [WWW Insurer] is therefore uncertain. Their policy liabilities comprise [N]% of the total policy liabilities at [31 December XXXX].
>
> In my opinion, except for the reservation in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the [consolidated] financial statements fairly present the results of the valuation.

**Liabilities greater than those calculated by the actuary**

.28 If the financial statements of an insurer report policy liabilities which are greater than those calculated and reported by the actuary, and if the notes to those financial statements do not provide sufficient disclosure of the rationale for the greater liabilities, then the actuary would report as follows:

> I have valued the policy liabilities of [the Company] for its [consolidated] balance sheet at [31 December XXXX] and their change in the statement of income for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.
>
> In my valuation, the amount of the policy liabilities is $[X]. The corresponding amount in the [consolidated] financial statements is $[Y].
>
> In my opinion, the amount of policy liabilities of $[X] makes appropriate provision for all policyholder obligations and, except as described in the preceding paragraph, the [consolidated] financial statements fairly present the result of the valuation.