

## Memorandum

**To:** Members in the Property and Casualty Insurance Practice Area  
**From:** Shawn Doherty, Chairperson  
Committee on Property and Casualty Insurance Financial Reporting  
**Date:** November 29, 2006  
**Subject:** **Guidance for the 2006 Valuation of Policy Liabilities and DCAT for Property and Casualty Insurers**

*Document 206146*

As the year-end is approaching, the Canadian Institute of Actuaries' (CIA) Committee on Property and Casualty Insurance Financial Reporting (PCFRC) would like to take this opportunity to remind actuaries involved in policy liabilities valuation and Dynamic Capital Adequacy Testing (DCAT) reporting that it is important to review the Rules of Professional Conduct<sup>1</sup> (Rules), the Standards of Practice<sup>1</sup> (SOP) and relevant educational notes.

While all of the Rules and SOP are important, we would like to direct your attention to the following in particular:

- SOP Section 1600 – Another Person's Work
- SOP Section 1700 – Assumptions
- SOP Section 1800 – Reporting
- SOP Section 2100 – Valuation of Policy Liabilities: All Insurance
- SOP Section 2200 – Valuation of Policy Liabilities: P&C Insurance
- SOP Section 2400 – The Appointed Actuary
- SOP Section 2500 – Dynamic Capital Adequacy Testing

Special attention would be given to the fact that there have been revisions to SOP section 2100 (June and October<sup>2</sup> 2006), SOP sections 2200 to 2500 (May, June<sup>3</sup> and October<sup>4</sup> 2006), and the General Standards (April and May<sup>5</sup> 2006).

To assist you in your fiscal year-end valuation or DCAT work, the following educational notes and documents are valuable sources of information:

<sup>1</sup> [http://www.actuaries.ca/members/professional/index\\_e.cfm](http://www.actuaries.ca/members/professional/index_e.cfm)

<sup>2</sup> <http://www.actuaries.ca/members/publications/2006/206075e.pdf>

<sup>3</sup> <http://www.actuaries.ca/members/publications/2006/206070e.pdf>

<sup>4</sup> <http://www.actuaries.ca/members/publications/2006/206120e.pdf>

<sup>5</sup> <http://www.actuaries.ca/members/publications/2006/206034e.pdf>

- Summaries: Summary Appointed Actuary Seminar PD-9 – Discounting Review of Current and Best Practice (June 2006)<sup>6</sup>
- Educational Note: Discounting (July 2005)<sup>7</sup>
- Educational Note: Consideration of Future Income Taxes in the Valuation of Policy Liabilities (July 2005)<sup>8</sup>
- Educational Note: DCAT – Minimum Regulatory Capital Requirement (July 2003)<sup>9</sup>
- Educational Note: Valuation of Policy Liabilities P&C Insurance Considerations Regarding Claim Liabilities and Premium Liabilities (June 2003)<sup>10</sup>
- Educational Note: Evaluation of the Runoff of Claims Liabilities When the Liabilities are Discounted in Accordance with Accepted Actuarial Practice (March 2003)<sup>11</sup>
- Educational Note: Dynamic Capital Adequacy Testing – Life and Property and Casualty (June 1999)<sup>12</sup>

In addition to the Rules, SOP, and educational notes, the repealed memorandum of November 1993 entitled, Provision for Adverse Deviations (Property & Casualty)<sup>13</sup> provides useful guidance for the selection of margins for adverse deviation until a suitable replacement is published by the CIA. Specifically, it lists many important considerations influencing the selection of margins and provides descriptions of high and low margin situations.

Later this fall, the PCFRC expects to issue an educational note on the implications of Canadian Institute of Chartered Accountants' (CICA) Accounting Standards 3855 and 1530. This note identifies the issues and challenges associated with having assets measured at fair value (marked-to-market). Although these new standards do not apply to the fiscal year-end 2006 policy liabilities, they do apply to the fiscal year 2007 opening balance. In effect, the actuarial present value calculation will need to be completed twice, with any difference treated as a one-time adjustment to retained earnings on the first day of fiscal year 2007.

The PCFRC, in conjunction with the CIA's Committee on Risk Management and Capital Requirements, expects to release a new educational note on DCAT before year-end. Changes to SOP section 2500 - Dynamic Capital Adequacy Testing will be made at the same time.

Also noteworthy, the Accounting Standards Boards has issued auditing guideline No. 43 (AuG-43) effective for 2006 year-end valuations. AuG-43 requires auditors to engage actuarial specialists as part of the audit team. This has implication on the SOP subsection 1630 CIA/CICA Joint Policy Statement. Revisions to this standard are expected to be issued prior to the year-end.

As outlined in SOP subsection 1220, the “actuary should be familiar with relevant educational notes and other designated educational material,” considering that a practice described “for a situation is not necessarily the only accepted practice for that situation and is not necessarily accepted actuarial practice for a different situation.”

Finally, PCFRC remains available for all of your questions and comments.

<sup>6</sup> <http://www.actuaries.ca/members/organization/PC/PCFR/PSC-PCFR-S060621.pdf>

<sup>7</sup> <http://www.actuaries.ca/members/publications/2005/205052e.pdf>

<sup>8</sup> <http://www.actuaries.ca/members/publications/2005/205048e.pdf>

<sup>9</sup> <http://www.actuaries.ca/members/publications/2003/203060e.pdf>

<sup>10</sup> <http://www.actuaries.ca/members/publications/2003/203051e.pdf>

<sup>11</sup> <http://www.actuaries.ca/members/publications/2003/203023e.pdf>

<sup>12</sup> <http://www.actuaries.ca/members/publications/1999/9930e.pdf>

<sup>13</sup> <http://www.actuaries.ca/members/publications/1993/9371e.pdf>

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