

Educational Note

Guidance for the 2007 Valuation of Policy Liabilities and DCAT for Property and Casualty Insurers

Committee on Property and Casualty Insurance Financial Reporting

January 2008

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Members should be familiar with educational notes. Educational notes describe but do not recommend practice in illustrative situations. They do not constitute Standards of Practice and are, therefore, not binding. They are, however, intended to illustrate the application (but not necessarily the only application) of the Standards of Practice, so there should be no conflict between them. They are intended to assist actuaries in applying Standards of Practice in respect of specific matters. Responsibility for the manner of application of Standards of Practice in specific circumstances remains that of the member in the property and casualty insurance practice area.

Memorandum

To: Members in the Property and Casualty Insurance Practice Area

From: Jacques Tremblay, Chairperson
Practice Council

Shawn Doherty, Chairperson
Committee on Property and Casualty Insurance Financial Reporting

Date: January 30, 2008

Subject: **Educational Note – Guidance for the 2007 Valuation of Policy Liabilities and DCAT for Property and Casualty Insurers**

In accordance with the Institute’s Policy on Due Process for the Approval of Guidance Material other than Standards of Practice, this educational note has been prepared by the Committee on Property and Casualty Insurance Financial Reporting, and has received final approval for distribution by the Practice Council on January 16, 2008.

As outlined in subsection 1220 of the Standards of Practice, “*The actuary should be familiar with relevant educational notes and other designated educational material.*” That subsection explains further 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.*”

If you have any questions or comments regarding this educational note, please contact Shawn Doherty at his CIA Online Directory address, shawn.doherty@ace-ina.com.

JT, SD

The Committee on Property and Casualty Insurance Financial Reporting (PCFRC) of the Canadian Institute of Actuaries (CIA) reminds actuaries involved in valuation of policy liabilities and Dynamic Capital Adequacy Testing (DCAT) reporting for property and casualty insurers that it is important to review the Rules of Professional Conduct (Rules), the Standards of Practice and relevant educational notes. Links to all the documents referenced in this educational note are provided in the appendix.

While all of the Rules and Standards of Practice are important, the committee directs your attention in particular to the following sections of the Standards of Practice:

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

Special attention is directed to the following recent revisions to the Standards of Practice.

[Standards of Practice – General Standards CIA/CICA Joint Policy Statement Subsections 1620 and 1630 \(207067\), June 2007](#)

[Technical Changes to the DCAT Standards of Practice \(207091\), October 2007, and the accompanying memorandum \(207090\)](#)

[Standards of Practice – General Standards \(207080\), October 2007](#) (revised to include technical amendments).

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

Educational Note: [Dynamic Capital Adequacy Testing](#) (November 2007)

Task Force Report: [Materiality](#) (November 2007)

Summaries: [Summary Appointed Actuary Seminar PD-9 – Discounting Review of Current and Best Practice](#) (June 2006)

Educational Note: [Discounting](#) (July 2005)

Educational Note: [Consideration of Future Income Taxes in the Valuation of Policy Liabilities](#) (July 2005)

Educational Note: [Valuation of Policy Liabilities P&C Insurance Considerations Regarding Claim Liabilities and Premium Liabilities](#) (June 2003)

Educational Note: [Evaluation of the Runoff of Claims Liabilities When the Liabilities are Discounted in Accordance with Accepted Actuarial Practice](#) (March 2003)

In addition to the Rules, Standards of Practice, and educational notes, the repealed memorandum of November 1993 entitled, [Provision for Adverse Deviations](#) (Property and Casualty) provides useful information for the selection of margins for adverse

deviations 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.

The presentation entitled, “[DCAT – Making it Better - OFSI Perspective](#)” by David Oakden of the Office of the Superintendent of Financial Institutions at the 2007 Seminar for the Appointed Actuary discussed recommendations on improving the DCAT Report and is suggested reading as a helpful guide to improving the DCAT Report.

APPENDIX

Following is a list of all documents referenced in this educational note, along with the corresponding hyperlinks.

Rules of Professional Conduct:

<http://www.actuaries.ca/members/publications/2006/206091e.pdf>

Standards of Practice: http://www.actuaries.ca/SOP/sop_e.cfm

Educational Note: Dynamic Capital Adequacy Testing (November 2007):

<http://www.actuaries.ca/members/publications/2007/207108e.pdf>

Task Force Report: Materiality (November 2007):

<http://www.actuaries.ca/members/publications/2007/207099e.pdf>

Summaries: Summary Appointed Actuary Seminar PD-9 – Discounting Review of Current and Best Practice (June 2006):

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

Educational Note: Discounting (July 2005)

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

Educational Note: Consideration of Future Income Taxes in the Valuation of Policy Liabilities (July 2005): <http://www.actuaries.ca/members/publications/2005/205048e.pdf>

Educational Note: Valuation of Policy Liabilities P&C Insurance Considerations Regarding Claim Liabilities and Premium Liabilities (June 2003):

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

Educational Note: Evaluation of the Runoff of Claims Liabilities When the Liabilities are Discounted in Accordance with Accepted Actuarial Practice (March 2003):

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

Memorandum of November 1993 entitled, Provision for Adverse Deviations (Property and Casualty): <http://www.actuaries.ca/members/publications/1993/9371e.pdf>

Presentation entitled, “DCAT – Making it Better - OFSI Perspective” by David Oakden of the Office of the Superintendent of Financial Institutions at the 2007 Seminar for the Appointed Actuary:

http://www.actuaries.ca/meetings/AA/2007/pdf_ppt/PD-5%20Oakden.ppt