

Memorandum

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

From: A. David Pelletier, Chair
Actuarial Standards Board
Jacqueline Friedland, Chair
Designated Group

Date: August 30, 2010

Subject: **Notice of Intent (NOI) to revise the Standards of Practice – Practice-Specific Standards for Insurers (P&C Insurance) – Subsection 2260 Margin for Adverse Deviations – Deterministic Analysis and Subsection 2270 Margin for Adverse Deviations – Stochastic Analysis**

Comment Deadline: **October 15, 2010**

Document 210057

OBJECTIVE

It is proposed to revise subsections 2260 and 2270, which address margin for adverse deviations for property and casualty insurance, to address the issue of selecting a margin below the low end of the range.

BACKGROUND

The current standards related to margins for adverse deviation (MfAD) derived from both deterministic and stochastic analyses are very specific in not allowing for a MfAD less than the low end of the range.

2260.01 states: The actuary should select a margin for adverse deviations for an assumption that is at least as much as the amount defined by the low margin for adverse deviations and is not excessive. [Effective December 31, 2009]

2270.01 states: The margin for adverse deviations selected based on stochastic techniques should not be less than the low margin for adverse deviations set out in paragraph 2260.02 and should not be excessive. [Effective December 31, 2009]

As set out in 1120 Interpretations, these recommendations are the highest order of guidance in the standards. Unless there is evidence to the contrary, there is a presumption that a deviation from a recommendation is a deviation from accepted actuarial practice.

SUMMARY OF PROPOSED CHANGE AND DESIRED OUTCOME

Specifically, we propose to add the following as 2260.05 and 2270.04:

A selection below the low margin may be appropriate for unusual situations. For example, in a situation in which the best estimate discount rate based on the insurer's portfolio is less than 0.25% per annum, a margin for adverse deviations for investment return rates below that specified in 2260.02 may be reasonable. Similarly, unique situations may support a claims development margin for adverse deviation below that specified in 2260.02, such as a reinsurer in runoff for which all remaining treaties are being commuted or an insurer with aggregate stop loss coverage who is reserved at the stop loss limit.

The desired outcome is to make it clearer to members that selection below the low margin may be acceptable in unique circumstances. While such exceptions could be supported without changing subsections 2260 and 2270 because of the guidance in 1120 Interpretations, we believe a direct change in subsections 2260 and 2270 will provide greater clarity to the actuaries who routinely turn to Section 2200 for guidance on the valuation of policy liabilities for property and casualty insurance.

The intent is also to revise the educational note, Margins for Adverse Deviations for P&C Insurance, which was released in December 2009 to address this proposed change. The revised educational note would be released prior to the effective date of the proposed change.

TIMELINE AND URGENCY OF CHANGES

The Actuarial Standards Board intends to publish an exposure draft by October 31, 2010 and to have revised Standards of Practice in place for year-end 2010. This aggressive timeline has been set because this change is considered relatively minor, based on feedback from numerous property and casualty actuaries as well as consultation with the Committee on Property and Casualty Insurance Financial Reporting.

YOUR FEEDBACK

The Actuarial Standards Board is soliciting feedback on this notice of intent from members of the CIA and from other stakeholders. Comments on the proposed changes are invited by **October 15, 2010**. Please send your comments, preferably in an electronic format, to Jacqueline Friedland at jfriedland@kpmg.ca with a copy to Chris Fievoli at Chris.Fievoli@actuaries.ca. The only planned forum for submitting comments regarding this notice of intent is the receipt of written comments at the above address.

The Actuarial Standards Board intends to publish a formal exposure draft by October 31, 2010 after considering the comments received. During the period following publication of the exposure draft there will be opportunity for further comments.

It is the responsibility of the Actuarial Standards Board to make final decisions regarding the revised Standards of Practice. It hopes to make final decisions regarding the revised Standards of Practice in 2010.

The Actuarial Standards Board has formed a Designated Group that will be responsible for the development of the revised Standards of Practice. This Designated Group will be chaired by Jacqueline Friedland and will be composed of the same members that addressed changes in subsection 2250 in 2009.

ADP, JF