



Financial Services Commission of Ontario

**MEMORANDUM FOR THE ACTUARY'S REPORT ON
PROPERTY AND CASUALTY
INSURANCE BUSINESS**

2008

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1. INTRODUCTION

This Memorandum describes the requirements of the Financial Services Commission of Ontario (FSCO) with respect to the Appointed Actuary's Report (AAR) on property and casualty insurance business. It sets out the minimum standards used in determining the acceptability of the AAR and provides guidance for actuaries preparing reports in matters relating to presentation, level of detail and nature of the discussions to be included.

Additional special requirements may be included in the covering letter which accompanies these instructions. Such additional requirements must be considered as part of this memorandum.

Ontario incorporated property and casualty insurance companies and reciprocals are required to file an AAR, as part of the Annual Return forms, with FSCO in Canada. It is the responsibility of the insurer to ensure that the AAR submitted as part of the Annual Return complies with FSCO's requirements.

The term AAR refers to the detailed actuarial report submitted to a regulator. This includes the opinion of the Actuary concerning the fairness and adequacy of the figures for policy liabilities included in the insurer's financial statements, plus a detailed commentary and exhibits of data, and calculations supporting that opinion.

An important purpose of the AAR is to give the regulator a comprehensive report documenting the work done by the Appointed Actuary to calculate the policy liabilities. The AAR is a key component in FSCO's review process of the Company's actuarial financial position and profile.

The AAR should not be considered to solely be a report from the company's Appointed Actuary to the regulator's actuaries. It is also intended for company management and is read by regulators who are not actuaries but who are knowledgeable about insurance. It should be a generally understandable presentation that can be used as a key component in the regulator's monitoring of the company's financial results.

When this Memorandum uses the words "require" and "must", these terms have the normal English usage meaning and reflect FSCO's expectations. Instructions with these terms are mandatory. This Memorandum also uses the word "should", which means that there is an expectation that the instruction will be followed, but exceptions are allowed in the presence of valid reasons.

2. NOTE ON REGULATORY REQUIREMENTS

2.1 Application of Professional Standards to Actuary's Report and Valuation

The Actuary's valuation of all policy liabilities must be in accordance with generally accepted actuarial practice, subject to any additional requirements of the Superintendent.

The Superintendent understands generally accepted actuarial practice to be defined by the professional actuarial Standards of Practice promulgated by the Canadian Institute of Actuaries (CIA), together with the additional requirements and directions of this Memorandum. Any deviations from CIA standards or from the additional requirements of this Memorandum must be clearly reported in the AAR, must be referenced in a covering letter to the AAR filed with the regulator and must be justified.

The actuarial opinions presented to the shareholders and policyholders of an insurance company should be essentially the same as the opinions filed with the regulator. Should this not be the case, the Actuary is required to disclose in writing to the regulator the material differences between the opinions, as well as the rationale for such differences.

References to "Annual Return" should be read as referring to "Annual Statement" or whatever term is used in the legislation to describe the annual filing by insurers which include forms P&C-1 and P&C-2.

Office of the Superintendent of Financial Institutions' (OSFI) issues Guideline E-15 that describes all of the duties of the Appointed Actuary and the qualifications that OSFI expects the Appointed Actuary to have. Reference should be made to this guideline in preparing the AAR.

2.2 Marine Insurance

Marine insurance business, if transacted, must be included within the scope of the AAR. The Appointed Actuary's provisions for marine insurance should be clearly identified in the report.

2.3 Title Insurance

Premiums for title insurance are earned at issue and therefore, unearned premium reserves are not usually required. The accident date for all claims is the issue date of the policy as most problems with the title that could cause a claim would be in existence at the issue date of the policy.

2.4 Accident and Sickness Insurance

This Memorandum does not deal specifically with accident & sickness insurance valuation.

Companies and their actuaries preparing reports on accident and sickness business should refer to Memorandum for the Actuary's Report on Life Insurance Business issued by OSFI. The opinion described later in this document, included in the report, should cover these related provisions.

2.5 Differences (if any) Between Actuary's Valuations and Corresponding Annual Return Liabilities

Companies are expected to book the Actuary's estimated policy liabilities in the Annual Return. In the circumstances where the booked policy liabilities differ

from the estimated policy liabilities by more than the Actuary's selected standard of materiality the AAR must include a discussion of the reasons for the differences.

For Ontario regulated companies, the provision for policy liabilities in the liabilities shown in the balance sheet of the Annual Return should be greater than or equal to the corresponding estimated policy liabilities on a discounted basis including PfAD calculated by the Actuary.

2.6 Filing of Reports

Insurers are reminded that the legislation requiring the filing of actuarial reports and opinions with Annual Return forms P&C-1 and P&C-2 requires that each copy of the Annual Return filed with FSCO should contain a properly signed copy of the AAR.

An insurance company that files its Annual Return without including the AAR will not be deemed to have satisfied the requirements of the Act with respect to the filing of its Annual Return. A certificate containing only the opinion of the Actuary will not be accepted in lieu of a full report. Note that, according to regulations, actuarial reports are subject to late or erroneous filing penalties.

3. FORMAT OF THE ACTUARY'S REPORT

3.1 Report Outline

While the format of the AAR differs from actuary to actuary most reports include sections similar to the following:

- Introduction
- Opinion
- Executive Summary
- Description of Company
- Data
- Claims Liabilities
- Premium Liabilities
- Other Liabilities
- Compliance
- Unpaid Claims and Loss Ratio Analysis Exhibit
- Exhibits and Appendices

Although the exact content of the report is left to the professional judgement of the author, we believe that the above outline is useful and we would encourage Actuaries to use it. Where the Actuary uses a different outline a table showing where the above information is located would greatly assist the readers of the AAR.

In Section 4 "Contents of the Actuary's Report" we have used the above outline to discuss the required contents.

3.2 Table of Contents

A table of contents must be included at the beginning of the report.

To facilitate the review, the report should have separately identified sections with numbered pages. Reference to such pages should be part of the table of contents.

3.3 Persons Signing the Actuary's Report

The report must be signed by a Fellow of the Canadian Institute of Actuaries.

4. CONTENTS OF THE ACTUARY'S REPORT

4.1 Introduction

This section should identify the company involved, the date of valuation, the identity of the author, the author's full address and telephone number, and the author's authority for preparing the report. This section should indicate clearly that the report is an actuarial valuation report or supports an actuarial opinion. The scope of the report should be clearly identified.

4.2 Expression of Opinion

The Actuary must use the prescribed opinion (see Appendix I). Any different wording will be considered as a qualification.

The opinion wording is as recommended in the CIA Standards of Practice – Practice-Specific Standards for Insurers, with the following additions:

- a. **The liability figures carried by the company in the Annual Return must be stated in the opinion.**
- b. **The liability figures derived by the Actuary must be stated in the opinion.**

The opinion wording in the AAR must include the following text:

"I am satisfied that the data utilized for the valuation of these liabilities are reliable and sufficient. I verified the consistency of the valuation data with the company's financial records."

This section must contain an original signature of the author of the report, the author's name in type, and the date of signing.

Any qualification or limitation concerning any aspect of the report should be noted in this section. These qualifications or limitations should be similar to the ones included in the opinion for Canadian Annual Returns presented to the shareholders and policyholders. Caveats or any form of disclaimer should be excluded from the opinion but could be included in Section 4.3 "Supplementary Information Supporting the Opinion".

For branches where the External Auditor Report is not available at the time the Actuary has to render his/her opinion, **a qualified opinion, conditional upon receiving an unqualified opinion from the External Auditor, must be issued. The qualification must be removed, if appropriate, when the Auditor's work is completed and the regulator must be informed. If the Auditor is unable to give an unqualified opinion or modifies the financial statements the Superintendent must be notified immediately and a revised opinion with a supporting AAR issued as soon as possible.**

4.3 Supplementary Information Supporting the Opinion

It is important that any reader of the AAR be able to understand how the Actuary's figures, as shown in the opinion, are derived. This section should contain references to the report sections, exhibits and/or appendices where these results are derived or summarized. Where results from several places must be added together a table should be included.

The author must disclose the standard of materiality in the report and briefly describe how it was developed.

Any conditions or limitations pertaining to the policy liabilities should also be included in this section

4.4 Executive Summary

This section should contain a summary of the key results and findings and any other information the Actuary wishes to bring to the attention of the reader. In particular, it should comment on the comparison of the actual experience with the expected experience in the prior year end valuation for all lines combined. It should also reference any significant changes in methods or assumptions from the prior report, significant issues and how they were resolved, data or other concerns identified by the Actuary and any other unusual circumstances identified as part of the valuation. **Any departure from accepted actuarial practice must also be included in this section.**

4.5 Description of Company

4.5.1 Ownership and Management

The Actuary should provide a brief history of the Company covering ownership and senior management. Changes over the past several years should be identified and potential impacts on the valuation as a result of these changes should be discussed.

4.5.2 Business

This section should contain a brief description of the lines/classes of business written, distribution channels and geographic distribution. Recent changes in and the impact of:

- Business written,
- Underwriting policies and

- Claims policies and procedures

should be described.

4.5.3 Reinsurance

The author of the report should describe the company's reinsurance arrangements (type of arrangements, significant terms and conditions, and order of application of treaties) and any changes in the arrangements (including changes in retention or limits) during the experience period used in the report. This description should be included for all years where the ceded unpaid claims could be material. In many cases it is useful to include the principles behind the Company's reinsurance program such as maximum probable loss.

4.6 Data

The extent of the author's review and verification of the data and the extent of the author's reliance on data prepared by others should be noted. The methods and procedures used to ensure that the valuation data are sufficient, reliable and accurate should be clearly described.

In particular the report should describe the type of data provided and the review and verification procedures applied thereto and the procedures and steps undertaken to ensure that the valuation data is sufficient, reliable and accurate.

The statutory requirement that the Actuary file a report with the Annual Return assumes that the Actuary has met the standard of care, as required by the CIA. In particular this requires that the Actuary establish suitable check procedures to verify that the data utilized is reliable and sufficient for the valuation of policy liabilities.

The CIA/CICA's "Joint Policy Statement" (JPS) notes that the Appointed Actuary “. . . may consider the work of an auditor with respect to data integrity and controls”. The Actuary can and generally should use the work of the Auditor in fulfilling his/her statutory requirements with respect to the data. When using the work of the Auditor the Actuary must communicate with the Auditor to ensure that the Auditor is aware of the intended work and of the Actuary's needs.

The extent to which the Actuary considers the work of the Auditor must be discussed in the AAR. Where the Actuary uses the work of the Auditor, the details of the Auditor's work need not be addressed in the AAR.

In some cases, such as Branches of foreign insurers, the Auditor's work may not be completed when the Actuary provides his/her opinion. **In such cases, a qualified opinion, conditional upon receiving an unqualified opinion from the External Auditor, must be issued. The qualification must be removed, if appropriate, when the Auditor's work is completed and the regulator must be informed.**

With respect to any line of business (including more specifically accident & sickness business, pools and facility associations), the Actuary should also indicate any reliance on or use of the work of another actuary; the scope of such reliance must be disclosed and a justification for such reliance must be

presented. The extent of the review of the other actuary's work should also be described.

4.7 Claims Liabilities

4.7.1 Undiscounted Claims Liabilities

The commentary on the claims liabilities must contain details of the derivation of the gross, ceded and net provisions. Normally the Actuary will calculate two of these provisions directly and derive the third by addition or subtraction. The provisions calculated directly will depend on the circumstances of the company and the preference of the actuary, however, the individual provisions should each be reasonable.

The data, analysis and commentary will normally be provided by the actuarial lines of business. These lines will be selected by the Actuary based on the credibility and homogeneity of the resulting data. Where the actuarial lines of business have changed from the prior report, the reasons for the changes should be clearly stated. In some cases it may be appropriate to use different lines of business for the ceded and gross/net provisions.

The AAR should include all the supports and exhibits underlying the reserving method when adjusted data is used due to a change in reserving practice.

Where the actuarial lines of business do not include all the business written by the company (e.g. pools and associations) the additional amounts should be clearly indicated and included in a reconciliation exhibit.

In determining the provision for each actuarial line of business, the author of the report should take into account, among other factors, at least the following:

- any significant trends in the severity and frequency of claims,
- any important changes in the coverage of the policies,
- the changes in the cost of reinsurance and/or in reinsurance arrangements,
- any changes in the lags in the reporting of claims and in the payment of claims,
- changes to the loss reserving practices,
- the effect of regulatory changes and
- the potential effect of court decisions

The commentary should discuss the existence of any significant development (adverse or favourable) in the run-off of the reserves that had been set up in prior years, reasons for the development and changes to methods and assumptions that would eliminate the recurrence of any consistent development.

4.7.2 Claims Expenses

Claims expenses are normally split between internal (unallocated) and external (allocated).

Some Actuaries combine external expenses with incurred losses and base their analysis on the total of losses and expenses. Other Actuaries calculate separate provisions for indemnity and external expenses. Both approaches are acceptable, however, the Actuary should clearly indicate the approach followed both when describing the data and the analysis.

A variety of methods are used for internal loss expense provisions. Any method in accordance with accepted actuarial practice is acceptable; however, the method(s) should be described and changes in methods from prior reports and their impact should be clearly indicated and, if material, included in the executive summary.

4.7.3 Comparison of Actual Experience with Expected Experience in Prior Year-End Valuations

In order to assess the effect of changes in the estimated claims liabilities, FSCO requires that a comparison of Actual Experience with Expected Experience on an undiscounted basis be provided for at least the last two years, however, where possible the Actuary should strive to provide the data for the latest five years. These comparisons must be provided gross and net of reinsurance. Normally these comparisons will include external adjustment expenses, exclude internal adjustment expenses and exclude classes of business not reviewed by the Actuary (e.g. pools).

Actual Experience refers to the ultimate gross and net undiscounted estimates selected for each accident year for each actuarial line of business valued as of the current year-end (December 31 or October 31). Expected Experience in Previous Year End Valuations refers to the ultimate undiscounted estimates selected by the Actuary at each of the prior year-ends. **Additional run-off experience of unpaid claims on a discounted basis can also be included to facilitate the comparison of Actual Experience with Expected Experience.** If the ultimate undiscounted estimates are not available for a line of business (e.g. tabular reserves) then the ultimate discounted estimates may be used. The total for all lines combined must be included and the Actuary will normally include useful subtotals.

Where there are changes in the actuarial lines of business the Actuary must allocate the actual total claims liabilities from prior reports to the current actuarial lines of business using a reasonable approximation. For the first year following the change it would be useful to show the development using the old actuarial lines of business as well.

Where the actuary uses underwriting/policy year rather than accident year the Actuary may show the comparison of actual to expected experience using projected loss ratios based on underwriting/policy year data. In this case the Actuary should estimate the dollar impact of the development. This would normally be calculated by multiplying the change in loss ratio by the underwriting/policy year earned premium at the prior year-end.

Whenever significant differences in ultimate estimates occur for any accident year, the Actuary should provide commentary explaining such changes in ultimate estimates for each accident year. In addition, the Actuary should discuss any actions taken to reduce the likelihood of similar differences in

the future. Commentary from prior reports should be updated based on the most recent experience. For this section the Actuary may use a standard greater than the selected materiality standard to eliminate comments on normal fluctuations in data. A lower standard should be used for individual lines and a moderately higher standard may be used for older accident years to avoid repeating some of the less important comments from prior reports.

4.7.4 Discounted Claims Liabilities

The claims liabilities must be discounted and include appropriate margins as required by CIA Standards. The interest rate used for the valuation should be indicated and the method used to select the interest rate should be described in detail. The selected margins and the reasons for their selection should be indicated. The impact of changes in selected margins should be quantified and the changes should be justified. Where material the impact of the changes in selected margins should be disclosed in the Executive Summary.

4.7.5 Reinsurance Ceded

The provision for reinsurance ceded must be reduced for expected reinsurer defaults, disputes, the time value of money due to delays in payment or other reasons that could reduce the recoverable. This reduction is in addition to the reinsurance margin which is a reduction to a best estimate and not a provision for expected defaults. The report should clearly indicate where none of the above reductions are made to the provision for reinsurance ceded.

When making this estimate it is not expected that the Actuary will necessarily assess the financial condition of each reinsurer. However, the existence of any of the following situations and the actions taken should be described:

- a dispute has arisen with a reinsurer;
- a reinsurance collectible is significantly overdue;
- the reinsurer has a history of not settling accounts promptly;
- the reinsurer is known to have been the subject of regulatory restrictions in its home jurisdiction or
- the reinsurer has a poor credit rating.

It is expected that the Actuary will discuss reinsurance matters with the management and the External Auditors of the company to determine whether there are unusual problems and/or delays expected to be encountered in collecting the relevant amounts from the reinsurers.

Where reinsurance agreements were commuted or changed, the author should clearly indicate how any changed arrangements were taken into account.

4.8 Premium Liabilities

The premium liabilities are normally calculated by line of business, however, the lines need not be identical to the actuarial lines of business used to estimate the claims liabilities.

Normal components of the premium liabilities include, but are not limited to, the following:

- expected losses, loss expenses and servicing costs on the policies in force
- expected adjustments (plus or minus) to swing rated policies
- expected changes to premiums as a result of audits, late reporting or endorsements
- expected commission adjustments on policies with variable commissions
- anticipated broker/agent commission

The premium liabilities should be discounted with appropriate margins as required by CIA Standards. Where the selected interest rate or margins differ from those used in the Claims Liabilities Section the reasons for the selections should be described.

The treatment of the above items may differ by company. The Actuary must demonstrate that the total of the carried premium liabilities is at least as large as his/her provision.

4.9 Other Liabilities/Other Assets

The Actuary must also comment on the adequacy of reserves, including IBNR, maintained for Self-Insurance Retention (SIR) plans. SIRs represent the portion of a loss that is payable by the policyholder. These should be included in the opinion as “other net liabilities”. They should be reported net of reinsurance, not net of the supporting assets. These supporting assets are to be included in the opinion as “other amounts to recover”. The report should describe these provisions and provide details of their calculation.

Whenever amounts for salvage & subrogation are material, and therefore presented separately in the Annual Return, they must be included in the opinion as “other amounts to recover”. The report should describe the method used to calculate these amounts.

Any other amounts reported by the Company as Other Liabilities or Other Assets should be included in the opinion with suitable commentary.

5. SPECIFIC DISCLOSURE REQUIREMENTS

5.1 Dynamic Capital Adequacy Testing (DCAT)

The AAR must disclose the following information with respect to the DCAT reporting in the last three years:

- Date on which the DCAT reports were signed by the Appointed Actuary.
- Date on which the DCAT reports were presented.
- To whom the DCAT reports were presented (e.g. full board, audit committee, chief agent).
- Whether the reports were presented in person or only in written form.
- Date used as the start of the projection period in the DCAT report.

5.2 New Appointment

If the Actuary was appointed to the role during the last year, the following disclosures must be made in the AAR:

- Date of appointment.
- Date of resignation of the previous Appointed Actuary.
- Date on which the regulator was notified of the appointment.
- Confirmation of communication with the previous Actuary, as required by legislation.
- List of the Actuary's qualifications, keeping in mind, but not limited to, the CIA's Rules of Professional Conduct.

5.3 Annual Required Reporting to the Board or Audit Committee

The AAR must disclose the dates on which the Appointed Actuary met with the board, the audit committee of the board or the chief agent, as required by legislation for the last three years.

5.4 Continuing Professional Development Requirements

The Appointed Actuary must disclose in the AAR that he/she is in compliance with the Continuing Professional Development requirements of the CIA.

5.5 Disclosure of Compensation

The Appointed Actuary should make a disclosure of compensation in the AAR. The form of the statement should be as follows:

<p>Disclosure of Compensation</p> <p>I attest that all my direct and indirect compensation is derived using the following methodology:</p> <hr/> <hr/> <hr/> <hr/>
<p>I confirm that I have performed my duties without regard to any personal considerations or to any influence, interest or relationship in respect of the affairs of my client or employer that might impair my professional judgment or objectivity.</p> <p>I confirm that my ability to act fairly is unimpaired, that there has been full disclosure of the methodology used to derive my compensation to all known direct users of my services.</p>

If the Appointed Actuary is a participant in a bonus plan or a stock option plan that is based on company performance and which is in addition to a base salary, the value, as a percentage, of the bonus plan or stock option plan to the base

salary must be disclosed. The basis used to determine the amount of the bonus or stock options granted must be disclosed.

Due to its sensitive nature the “Disclosure of compensation” may be included in a cover letter to FSCO rather than as part of the AAR.

5.6 Reinsurance

The Actuary must disclose information of any material financial reinsurance agreements ceded, where there is not significant insurance risk transfer between the ceding company and the reinsurer, or where there are other reinsurance agreements or side letters that could offset the financial effect of the first reinsurance agreement. If no such agreements exist the actuary must state that there are no material financial reinsurance agreements. The actuary should also describe the process used to reach the above conclusion.

The Appointed Actuary should disclose any related party reinsurance that has or could have a material impact on the policy liabilities. The disclosure should include the parties involved, a description of the reinsurance and the impact on policy liabilities.

6. REVIEW PROCEDURES

6.1 FSCO’s Review Procedure

The Superintendent recognizes the confidential nature of the contents of the AAR.

Reviews of the filed Annual Returns may disclose that an Actuary's valuation warrants further assessment and questioning. Since the review of an AAR may take place over an extended period after filing, FSCO may notify the Actuary that supplemental detail is required to sufficiently assess the assumptions and methods. The Actuary is expected to respond promptly to all supplemental requests. Working papers required to support the computation of the actuarial and other policy liability figures reported in the Annual Return and the AAR should be available at all times and should be made available to the regulator upon request.

The Superintendent may appoint an actuary to conduct a review of the AAR or to perform an independent valuation of the policy liabilities, if deemed necessary.

6.2 Filing Directions

Pursuant to Section 102 of the Insurance Act (Ontario), all insurers licensed in the Province of Ontario are required to file annual returns for the year ended on the 31st day of December. Failure to meet the filing requirement will result in a penalty fee under Section 447 of the Insurance Act.

The requirement for filing the DCAT report is no later than the 30th of September each year.

Two paper copies of the AAR together with the annual filing return and two paper copies of DCAT reports should be sent to FSCO. Electronic copy of the AAR or DCAT reports can be sent to FSCO in addition to paper filings. Separate diskettes or CDs should be used for separate companies. For security reasons, e-mail should not be used.

7. UNPAID CLAIMS AND LOSS RATIO ANALYSIS EXHIBIT

The Unpaid Claims and Loss Ratio Analysis Exhibits (see Appendix II) are constructed to allow the presentation and collection of industry loss information in a standard format. The compiled information will allow the analysis of the impact of discounting on claims reserves and the analysis of the evolution of loss trends. In order to achieve these objectives, the exhibits are constructed by class of insurance and by accident year and contain information on a current year and on a cumulative year basis.

The Analysis Exhibits will provide information in detail by actuarial line of business which will normally be the lines of business used by the Actuary for the claims liabilities. Each actuarial line of business must be uniquely linked to one and only one annual return line of business as listed in Appendix III. For reinsurers, proportional and non-proportional business should be reported separately.

If the actuary's line of business is a combination of two or more annual return lines, it is up to the actuary to determine in which annual return line to place it to best represent the operations of the company. For actuarial lines of business where the earned premium is not available in the same detail as the claims (e.g. automobile-liability bodily injury and property damage), the actuary should either estimate a split of the earned premium or combine the data showing it in the annual return line which best represents the line of business underwritten by the company. A "Total" page must also be completed; this exhibit should balance to the Actuary's Report. An individual page does not have to be completed for a category that is not reviewed by the Actuary but the total Discounted Reserves including PfAD for the category must be included in Line 15 ("Other Provisions"), of the "Total" page.

The Analysis Exhibits are expected to be completed on a net basis with net being defined by the Appointed Actuary in the Actuary's Report. For instance, if the Appointed Actuary has completed his or her net analysis gross of intra-group reinsurance, the Analysis Exhibits should also be completed on this basis. Any adjustments to the net basis as reported in the Actuary's Report (e.g. industry pools or inter-company reinsurance) should be made in Lines 14 and 15 of the "Total" page.

The detailed instructions for the completion of these exhibits are contained in Appendix IV.

8. Appendix I - Expression of Opinion

“I have valued the policy liabilities of (XYZ Company) for its balance sheet at December 31, 2008 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”.

“I am satisfied that the data utilized for the valuation of these liabilities are reliable and sufficient. I verified the consistency of the valuation data with the company financial records”.

(Qualifications should be included here)

The results of my valuation together with amounts carried in the Annual Return are the following:

Claims Liabilities	Carried in Annual Return	Actuary's Estimate
(1) Direct unpaid claims and adjustment expenses		
(2) Assumed unpaid claims and adjustment expenses		
(3) Gross unpaid claims and adjustment expenses		
(4) Ceded unpaid claims and adjustment expenses		
(5) Other amounts to recover		
(6) Other net liabilities		
(7) Net unpaid claims and adjustment expenses (3)-(4)-(5)+(6)		

Premium Liabilities	Carried in Annual Return (Col. 1)	Actuary's Estimate (Col. 2)
(1) Gross policy liabilities in connection with unearned premiums		
(2) Net policy liabilities in connection with unearned premiums		
(3) Gross unearned premiums		
(4) Net unearned premiums		
(5) Premium deficiency		
(6) Other net liabilities		
(7) Deferred policy acquisition expenses		
(8) Maximum policy acquisition expenses deferrable [(4)+(5)+(9)] _{Col. 1} - (2) _{Col. 2}		
(9) Unearned Commissions		

“In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the Annual Return fairly presents the results of the valuation.”

Signature of Actuary

Date opinion was rendered

Printed name of Actuary

9. Appendix II - Unpaid Claims and Loss Ratio Analysis Exhibit

Actuary's Category : _____
 Exhibit Category : _____

Line	Accident Year	Paid Losses ^a		Unpaid Claim Analysis ^a								Loss Ratio Analysis ^a					
		Current Year (2008)	Cumulative (2008 and prior)	Undiscounted Unpaid Claims and Adjustment Expenses			Present Value of Unpaid Claims and Adjustment Expenses - Total	Provision and Margin for Adverse Deviation (PfAD and MfAD)				Discounted Reserves including PfAD	Income		Cumulative Investment Income from Unpaid Claim Reserves	Loss Ratio (%)	
				Case Reserves	IBNR	Total		PfAD: Claims (000\$)	MfAD: Claims (%)	PfAD: Reinsurance (000\$)	PfAD: Interest Rate (000\$)		Earned Premiums	Invest. Income from UPR		Undiscounted	Discounted
(01)	(02)	(03)	(04)	(05)	(06)	(07)	(08)	(09)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	
1	1998 and Prior					-						-					
2	1999					-						-					
3	2000					-						-					
4	2001					-						-					
5	2002					-						-					
6	2003					-						-					
7	2004					-						-					
8	2005					-						-					
9	2006					-						-					
10	2007					-						-					
11	2008					-						-					
12	Total	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

10. Appendix III – Annual Return Lines of Business

- Property-Personal
- Property-Commercial
- Aircraft
- Automobile-Liability - Bodily Injury
- Automobile-Liability - Property Damage
- Automobile-Personal Accident
- Automobile-Other
- Boiler and Machinery
- Credit
- Credit Protection
- Fidelity
- Hail
- Legal Expense
- Liability
- Mortgage
- Other Approved Products
- Surety
- Title
- Marine
- Accident and Sickness

11. **Appendix IV – Unpaid Claims And Loss Ratio Analysis Exhibit**

The Unpaid Claims and Loss Ratio Analysis Exhibits (see Appendix II) are constructed to allow the presentation and collection of industry loss information in a standard format. The compiled information will allow the analysis of the impact of discounting on claims reserves and the analysis of the evolution of loss trends. In order to achieve these objectives, the exhibits are constructed by class of insurance and by accident year and contain information on a current year and on a cumulative year basis.

The Analysis Exhibits will provide information in detail on an actuary's category basis. Actuary's category represents the category used by the actuary for claims reserves analysis purposes. This category has to be uniquely linked to one and only one exhibit category as listed in Appendix III. For reinsurers, proportional and non-proportional business must be reported separately.

If the actuary's category is a combination of two or more annual return categories, it is up to the actuary to determine in which annual return category to place it to best represent the operations of the company. For actuarial lines of business where the earned premium is not available in the same detail as the claims (e.g. automobile-liability bodily injury and property damage), the actuary should either estimate a split of the earned premium or combine the data showing it in the annual return category which best represents the line of business underwritten by the company. A "Total" page must also be completed; this exhibit should balance to the Actuary's Report. An individual page does not have to be completed for a category that is not material but the total Discounted Reserves including PfAD for the category must be included in Line 15 ("Other Provisions"), of the "Total" page. The regulator might require that the Analysis Exhibits be completed for certain categories. The data for the category might not be credible for one company but could be useful to the regulator once aggregated with the rest of the industry.

The Analysis Exhibits are expected to be completed on a net basis with net being defined by the Appointed Actuary in the Actuary's Report. For instance, if the Appointed Actuary has completed his or her net analysis gross of inter-company reinsurance, the Analysis Exhibits should also be completed on this basis. Any adjustments to the net basis as reported in the Actuary's Report (e.g. industry pools or inter-company reinsurance) should be made in Lines 14 and 15 of the "Total" page.

11.1 Information Contained in the Unpaid Claims and Loss Ratio Analysis Exhibit (by Column)

The exhibits contain amounts segregated by accident years. These amounts exclude all paid and unpaid unallocated adjustment expenses (“ULAE”) for lines 1 to 12; discounted unpaid ULAE including provisions for adverse deviation (PfAD) are entered in line 13 in the “Total” exhibit but excluded entirely from the other exhibits.

The discounted unpaid claims of all automobile pools (e.g. Facility Association, Ontario Risk Sharing Pool and Plan de Répartition des Risques) are entered in line 14 (Facility Association and Plans) of the “Total” exhibit but excluded from all the other exhibits.

The discounted unpaid claims for all other provisions (e.g. non-material lines of business, non-automobile industry pools and inter-company reinsurance) are entered in line 15 (Other Provisions) of the “Total” exhibit.

Columns 02 and 03 must be completed for the past 10 accident years while columns 04 through 12 must be completed for all accident years. Columns 13 through 17 are only required to be completed for accident years 2002 and subsequent.

11.1.1 Column 01 – Accident Year

Column 01 of the exhibit represents the segregation by accident year. Line 11 represents the most recent accident year, lines 02 to 10 represent the nine prior accident years and line 01 represents all prior years to line 02.

11.1.2 Column 02 – Paid Losses: Current Year

Column 02 represents the paid claims and paid allocated adjustment expenses for the current calendar year.

11.1.3 Column 03 – Paid Losses: Cumulative

Column 03 represents the cumulative paid claims and paid allocated adjustment expenses for all calendar years.

11.1.4 Column 04 – Undiscounted Unpaid Claims and Adjustment Expenses: Case Reserves

Undiscounted case basis reserves of the unpaid claims and allocated adjustment expenses are presented in column 04. If the claims liabilities are case reserved on a discounted basis (e.g. tabular reserves), the discounted case reserves are to be entered.

11.1.5 Column 05 – Undiscounted Unpaid Claims and Adjustment Expenses: IBNR

Undiscounted incurred but not reported reserves are shown in column 05. These reserves also include any adjustment for the deficiency or redundancy of the case reserves (also known as the broad definition of IBNR) presented in column 04. The undiscounted IBNR includes all amounts related to the undiscounted unpaid allocated adjustment expenses. If the claims liabilities for a line are not available on an undiscounted basis (e.g. tabular reserves), then the discounted IBNR is to be entered.

11.1.6 Column 06 – Undiscounted Unpaid Claims and Adjustment Expenses: Total

This is the total of columns 04 and 05.

11.1.7 Column 07 – Present Value of Unpaid Claims and Adjustment Expenses: Total

Present value case basis reserves and IBNR of the unpaid claims and allocated adjustment expenses are presented in column 07. The discount rate used in the present value calculations must be stated as a footnote in the exhibit or clearly identified in the report. The underlying rule to be respected with the completion of the Analysis Exhibits is that the amounts shown should correspond to those calculated by the Appointed Actuary in the Actuary's Report. Do not add any PfAD to this column.

11.1.8 Column 08 – Provision for Adverse Deviation (PfAD): Claims

The provision for adverse deviation on claims is presented in column 08.

11.1.9 Column 09 –MfAD: Claims (%)

This column is the margin for adverse deviation and is equal to the ratio of column 08 to column 07.

11.1.10 Column 10 – PfAD: Reinsurance

The provision for reinsurance adverse deviation is presented in column 10.

11.1.11 Column 11 – PfAD: Interest Rate

A provision for interest rate adverse deviation is presented in column 11.

11.1.12 Column 12 – Discounted reserves including PfAD

Column 12 is the result of the following formula:

$$\text{Column (07) + Column (08) + Column (10) + Column (11)}$$

Note that for the “Total” exhibit, amounts for column 12 are entered on line 13 (ULAE – Total), line 14 (Facility Association and Plan) and line 15 (Other Provisions) as well as line 16 (Grand Total). Lines 13 through 16 are included only in the “Total” exhibit.

11.1.13 Column 13 – Earned Premiums

Earned premiums are shown separately by accident year; note that only accident years 2002 and subsequent must be completed for this column. Net earned premiums are reported and developed at ultimate where development is possible, for example, where experience rating is used.

11.1.14 Column 14 – Investment Income from UPR

Investment income from unearned premium for each accident year is presented in this column; note that only accident years 2002 and subsequent must be completed for this column. The use of the methodology must be consistent with the one used to calculate the discounted reserves presented in the annual statement.

Please refer to the Canadian Institute of Actuaries (CIA) Educational Note Evaluation of the Runoff of Claims Liabilities when the Liabilities are Discounted in Accordance with Accepted Actuarial Practice for guidance on the calculation of these amounts.

11.1.15 Column 15 – Cumulative Investment Income from Unpaid Claim Reserves

The cumulative investment income from the unpaid claim reserves is presented in column 15; note that only accident years 2002 and subsequent must be completed for this column.

Please refer to the CIA Educational Note Evaluation of the Runoff of Claims Liabilities when the Liabilities are Discounted in Accordance with Accepted Actuarial Practice for guidance on the calculation of these amounts.

11.1.16 Column 16 – Loss Ratio (%): Undiscounted

The Undiscounted loss ratio is calculated using the following formula:

$$\frac{100 * [\text{Column (03)} + \text{Column (06)}]}{\text{Column (13)}}$$

Only accident years 2002 and subsequent must be completed for this column.

11.1.17 Column 17 – Loss Ratio (%): Discounted

The Discounted loss ratio is calculated using the following formula:

$$\frac{100 * [\text{Column (03)} - \text{Column (15)} + \text{Column (12)}]}{\text{Column (13)} + \text{Column (14)}}$$

Only accident years 2002 and subsequent must be completed for this column.

Claims Reported on Other than an Accident Year Basis

Normally, the exhibits will be completed on an accident year basis (year in which the claim was incurred).

However, some insurers may have used a basis other than accident year when completing the Actuary's Report. This includes reinsurers reporting on an underwriting year basis as well as insurers writing policies on a claims-made basis. These insurers may encounter difficulties in completing the Analysis Exhibits on an accident year basis.

It is recommended that the basis that is most suited to the company's operation be used. Completing the exhibit on other than an accident year basis is subject to the condition that the regulators are advised of the basis used. The Exhibits must be completed so that the total of the amounts entered equals that calculated by the Appointed Actuary in the Actuary's Report.

11.1.18 Rounding of Data

All amounts entered on the Analysis Exhibits are to be expressed in Canadian dollars and rounded to the nearest thousand dollars.