



Final

**Final Standards of Practice –
Ratemaking: Property and Casualty
Insurance – Section 2600**

Actuarial Standards Board

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1100 INTRODUCTION

1110 DEFINITIONS

- .01 Each term set over dotted underlining has the meaning given in this section and has its ordinary meaning otherwise (e.g., external user).
- .02 Accepted actuarial practice is the manner of performing work in Canada in accordance with the Rules and these Standards of Practice. Standards of Practice are the responsibility of the Actuarial Standards Board and approval of standards and changes to standards is made through a process that involves consultation with the actuarial profession and other interested parties. Unless the context requires otherwise, references to accepted actuarial practice refer to accepted actuarial practice for work in Canada. [*pratique actuarielle reconnue*]
- .03 Actuarial cost method is a method to allocate the present value of a plan's obligations to time periods, usually in the form of a service cost and an accrued liability. [*méthode d'évaluation actuarielle*]
- .04 Actuarial present value method is a method to calculate the lump sum equivalent at a specified date of amounts payable or receivable at other dates as the aggregate of the present values of each of those amounts at the specified date, and taking into account both the time value of money and contingent events. [*méthode de la valeur actuarielle*]
- .04.1 Actuary, as it is used in these standards, means anyone bound by these standards for work in Canada. [*actuaire*]
- .05 Anti-selection is the tendency of one party in a relationship to exercise options to the detriment of another party when it is to the first party's advantage to do so. [*antisélection*]
- .06 Appointed actuary of an entity is an actuary formally appointed, pursuant to legislation, by the entity to monitor the financial condition of that entity. [*actuaire désigné*]
- .07 Appropriate engagement is one that does not impair the actuary's ability to conform to the rules. [*mandat approprié*]
- .08 Benefits liabilities are the liabilities of a plan in respect of claims incurred on or before a calculation date. [*obligations liées aux prestations*]
- .09 Best estimate means without bias, neither conservative nor unconservative. [*meilleure estimation*]
- .09.1 Bylaws means the bylaws of the Canadian Institute of Actuaries, as amended from time to time. [*Statuts administratifs*]
- .10 Calculation date is the effective date of a calculation; e.g., the balance sheet date in the case of a valuation for financial statements. It usually differs from the report date. [*date de calcul*]
- .11 Case estimate at a calculation date is the unpaid amount of one of, or a group of, an insurer's reported claims (perhaps including the amount of claim adjustment expenses), as estimated by a claims professional according to the information available at that date. [*évaluation du dossier*]
- .12 Claim adjustment expenses are internal and external expenses in connection with settlement of claims. [*frais de règlement des sinistres*]

- .13 Claim liabilities are the portion of insurance contract liabilities in respect of claims incurred on or before the balance sheet date. [*passif des sinistres*]
- .14 Contingent event is an event which may or may not happen, or which may happen in more than one way or which may happen at different times. [*éventualité*]
- .15 Contribution is a contribution by a participating employer or a plan member to fund a benefits plan. [*cotisation*]
- .15.1 Credibility is a measure of the predictive value attached to an estimate based on a particular body of data. [*crédibilité*]
- .16 Definitive means permanent and final. [*décision définitive*]
- .17 Development of data with respect to a given coverage period is the change in the value of those data from one calculation date to a later date. [*matérialisation*]
- .18 Domain of actuarial practice is the measurement of the current financial implications of future contingent events. [*domaine de la pratique actuarielle*]
- .19 Early implementation means the implementation of new standards before their effective date. [*mise en œuvre anticipée*]
- .20 Earnings-related benefit is a benefit whose amount depends on the recipient's earnings. [*régime salaire de carrière*]
- .21 External user is a user who is not an internal user. [*utilisateur externe*]
- .22 External user report is a report whose users include an external user. [*rapport destiné à un utilisateur externe*]
- .23 Financial condition of an entity at a date is its prospective ability at that date to meet its future obligations, especially obligations to policy owners, members, and those to whom it owes benefits. Financial condition is sometimes called "future financial condition". [*santé financière*]
- .24 Financial position of an entity at a date is its financial state as reflected by the amount, nature, and composition of its assets, liabilities, and equity at that date. [*situation financière*]
- .25 To fund a plan is to dedicate assets to its future benefits and expenses. Similarly for "funded" and "funding". [*provisionner*]
- .25.1 Funded status is the difference between the value of assets and the actuarial present value of benefits allocated to periods up to the calculation date by the actuarial cost method, based on a valuation of a pension plan. [*niveau de provisionnement*]
- .26 Going concern valuation is a valuation which assumes that the entity to which the valuation applies continues indefinitely beyond the calculation date. [*évaluation en continuité*]
- .27 Indexed benefit is a benefit whose amount depends on the movement of an index like the Consumer Price Index. [*prestation indexée*]
- .27.01 Indicated rate is the best estimate of the premium required to provide for the corresponding expected claims costs, expenses, and provision for profit. [*taux indiqué*]

- .27.1 Insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance contract includes group insurance, third party contracts where the owner of the contract and the person who is compensated (the policyholder) differ, and all like arrangements substantively in the nature of insurance.¹ [*contrat d'assurance*]
- .27.2 Insurance contract liabilities in an insurer's balance sheet are the liabilities at the balance sheet date on account of the insurer's insurance contracts, including commitments, which are in force at that date or which were in force before that date. [*passif des contrats d'assurance*]
- .28 Insurer is the party that has an obligation under an insurance contract to compensate a policyholder if an insured event occurs. Insurer includes a fraternal benefit society and the Canadian branch of a foreign insurer, but does not include a public personal injury compensation plan.¹ [*assureur*]
- .29 Internal user is the actuary's client or employer. Internal user and external user are mutually exclusive. [*utilisateur interne*]
- .30 Internal user report is a report all of whose users are internal users. [*rapport destiné à un utilisateur interne*]
- .31 Margin for adverse deviations is the difference between the assumption for a calculation and the corresponding best estimate assumption. [*marge pour écarts défavorables*]
- .32 New standards means new standards, or amendment or rescission of existing standards. [*nouvelles normes*]
- .33 Periodic report is a report that is repeated at regular intervals. [*rapport périodique*]
- .34 Plan Administrator is the person or entity with overall responsibility for the operation of a benefit plan. [*administrateur d'un régime*]
- .35 Policy liabilities in an insurer's balance sheet are the liabilities at the balance sheet date on account of the insurer's policies, including commitments, which are in force at that date or which were in force before that date. Policy liabilities consist of insurance contract liabilities and liabilities for policy contracts other than insurance contracts. [*passif des polices*]
- .35.1 Policyholder is a party that has a right to compensation under an insurance contract if an insured event occurs.² [*titulaire de police*]

¹ The wording of the first sentence of this definition is identical to the corresponding definition appearing in IFRS 4 Appendix A, as of November 2009. The second sentence is explanatory and not part of that definition.

² The wording of this definition is identical to the corresponding definition appearing in IFRS 4 Appendix A, as of November 2009.

- .36 Practice committee means the committee or committees of the Canadian Institute of Actuaries, either standing or ad hoc, to which the Practice Council of the Canadian Institute of Actuaries has assigned responsibility for the practice area or areas to which particular Standards of Practice apply. [*commission de pratique*]
- .37 Premium liabilities are the portions of insurance contract liabilities that are not claim liabilities. [*passif des primes*]
- .38 Prescribed means prescribed by these standards. [*prescrit*]
- .38.1 Property and casualty insurance is insurance that insures individuals or legal persons
having an interest in tangible or intangible property, for costs arising from loss of or damage to such property (e.g., fire, fidelity, marine hull, warranty, credit, legal expense and title insurance), or
for damages to others or costs arising from the actions of such persons (e.g., liability and surety bonds) and for costs arising from injury to such persons (e.g., automobile accident benefits insurance). [*assurances IARD*]
- .39 Provision for adverse deviations is the difference between the actual result of a calculation and the corresponding result using best estimate assumptions. [*provision pour écarts défavorables*]
- .40 Public personal injury compensation plan means a public plan
whose primary purpose is to provide benefits and compensation for personal injuries,
whose mandate may include health and safety objectives and other objectives ancillary to the provision of benefits and compensation for personal injuries, and
that has no other substantive commitments.
- The benefits and compensation provided under such public plans are defined by statute. In addition, such public plans have monopoly powers, require compulsory coverage except for those groups excepted by legislation or regulation, and have the authority to set assessment rates or premiums. [*régime public d'assurance pour préjudices corporels*]
- .41 Recommendation means an italicized recommendation in these standards. Similarly for “recommend”. [*recommandation*]
- .41.1 Related experience includes premiums, claims, exposures, expenses, and other relevant data for events analogous to the insurance categories under consideration other than the subject experience and may include established rate levels or rate differentials or external data. [*expérience connexe*]
- .42 Report is an actuary's oral or written communication to users about his or her work. Similarly for “to report”. [*rapport*]
- .43 Report date is the date on which the actuary completes the report on his or her work. It usually differs from the calculation date. [*date du rapport*]
- .43.1 Reinsurance recoverables in an insurer's balance sheet are the assets at the balance sheet date on account of reinsurance treaties, including commitments, which are in force at that date or which were in force before that date. [*sommes à recouvrer auprès des réassureurs*]

- .44 Report pursuant to law is a report for which the law requires an actuary's opinion. [*rapport en vertu de la loi*]
- .45 Rule means a rule in the Canadian Institute of Actuaries' Rules of Professional Conduct. [*règle*]
- .46 Scenario is a set of consistent assumptions. [*scénario*]
- .47 Service cost is that portion of the present value of a plan's obligations which an actuarial cost method allocates to a time period, excluding any amount for that period in respect of unfunded accrued liabilities. [*cotisation d'exercice*]
- .48 Standard reporting language is standard language for an external user report. [*libellé du rapport type*]
- .48.1 Subject experience includes premiums, claims, exposures, expenses, and other data for the insurance categories under consideration. [*expérience visée*]
- .49 Subsequent event is an event of which an actuary first becomes aware after a calculation date but before the corresponding report date. [*événement subséquent*]
- .49.1 Trend is the tendency of data values to change in a general direction from one coverage period to a later coverage period. [*tendance*]
- .50 Use means use by the actuary, usually in the context of use of another person's work. [*utilisation*]
- .51 User means an intended user of the actuary's work. [*utilisateur*]
- .52 Virtually definitive means to become definitive upon completion of one or more actions which are seen as formalities. [*pratiquement définitive*]
- .53 Work means the actuary's work within the domain of actuarial practice and usually includes
acquisition of knowledge of the circumstances of the case,
obtaining sufficient and reliable data,
selection of assumptions and methods,
calculations and examination of the reasonableness of their result,
use of other persons' work,
formulation of opinion and advice,
reporting, and
documentation. [*travail*]

**2100 INSURANCE CONTRACT VALUATION:
ALL INSURANCE**

2110 SCOPE

- .01 Sections 2100, 2200 and 2300 apply to the valuation of the insurance contract liabilities and of the reinsurance recoverables in an insurer's financial statements when the intent is that those statements be in accordance with accounting principles generally accepted in Canada. Effective for financial years beginning on or after January 1, 2011, the Canadian Institute of Chartered Accountants Handbook will contain both Canadian generally accepted accounting principles applicable to publicly accountable enterprises (being International Financial Reporting Standards incorporated into the Canadian Institute of Chartered Accountants Handbook) and Canadian generally accepted accounting principles applicable to private enterprises.
- .01.1 Part 2000 does not apply to post-employment benefit plans covered by the Practice-Specific Standards for Post-Employment Benefit Plans and does not apply to personal injury compensation plans covered by the Practice-Specific Standards for Public Personal Injury Compensation Plans.
- .02 Section 2100 applies to all kinds of insurance.
- .02.1 Sections 2200 and 2300, following, apply respectively to
property and casualty insurance; and
life and health (accident and sickness) insurance; that is, to insurance with respect to the life and health of persons other than corporations.
- .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.

2600 RATEMAKING: PROPERTY AND CASUALTY INSURANCE

2610 SCOPE

- .01 This section 2600 applies to the derivation of indicated rates for an insurance contract of property and casualty insurance written by an insurer, a reciprocal insurance exchange or an underwriting syndicate.
- .02 This section 2600 does not apply to the derivation of indicated rates for public personal injury compensation plans covered by the Practice-Specific Standards for Public Personal Injury Compensation Plans.
- .03 This section 2600 applies to the derivation of indicated rates for any entity, such as a residual market mechanism or an advisory organization, which derives indicated rates for an insurance contract to be written by an insurer, regardless of whether or not that entity is itself an insurer.
- .04 This section 2600 applies to the derivation of indicated rates, but not to the recommendation or selection of rates to be charged. The recommended or selected rates may reflect considerations beyond those set forth in this section 2600.
- .05 This section 2600 also applies to the derivation of indicated rates for insurance risks accepted by a property and casualty quasi-insurer, similar to insurance risks accepted under an insurance contract. In this section 2600, “property and casualty quasi-insurer” means an entity that assumes insurance risks that a property and casualty insurer may assume, without having the legal form of an insurer. Examples of property and casualty quasi-insurers include
- federal or provincial crown corporations or agencies acting in a capacity similar to a property and casualty insurer,
 - providers of extended warranties, and
 - self-funding mechanisms, such as those created by members of a professional association, or entities that retain some or all of their property and casualty insurance risk.

2620 METHOD

- .01 *The best estimate present value of cash flows relating to the revenue at the indicated rate should equal the best estimate present value of cash flows relating to the corresponding claim costs and expense costs, plus the present value of a provision for profit, over a specified period of time.*

- .02 *The actuary should select appropriate methods, techniques and assumptions recognizing that such elements depend on the circumstances of the case and that a variety of actuarial methods may be appropriate to derive an indicated rate. [Effective January 1, 2012]*

Data

- .03 The actuary would consider the availability and relevance of subject experience and related experience.

Credibility

- .04 The actuary would consider the blending of information from subject experience with information from one or more sets of related experience to improve the predictive value of estimates.

Changes in circumstances

- .05 The actuary would consider that the subject experience, related experience and future cash flows may be affected by changes in circumstances that may affect expected claim costs, expense costs, and provision for profit.

- .06 Relevant circumstances subject to change may include items that are largely under the control of the entity providing insurance, such as

- underwriting practice,
- distribution system,
- claims handling and case estimate setting practice,
- reinsurance arrangements,
- data processing and accounting systems,
- distribution or type of business written,
- provisions of the insurance contract(s), when not legislated,
- premium rates, and
- rating variables,

as well as items that are largely not under the control of the entity providing insurance, such as

- legislated coverage or benefits, and
- the economic, social and legal environments.

Development

- .07 The actuary would consider that subject experience and related experience may be subject to development over time.

Trend

- .08 The actuary would consider that subject experience and related experience may be subject to trend over time.

Unusual events

- .09 The actuary would consider that subject experience and related experience may or may not have been subject to catastrophes, large losses or other unusual events.

Provision for Expense Costs

- .10 The actuary would determine the provision for expense costs that is appropriate for the period during which the rates are expected to be in effect.

- .11 In selecting a provision for expense costs, the actuary would consider
- the various categories of expense costs that are incurred including, as may be applicable, residual market assessments, statutory assessments, policyholder dividends, and reinsurance costs,
 - that expense costs may not be directly proportional to premium, and
 - that one-time expense costs may need to be amortized.

- .12 The provision for expense costs, or other assumptions that are pertinent to its derivation, may be specified to the actuary under the terms of an appropriate engagement.

Provision for Profit

- .13 An indicated rate would include a provision for profit.
- .14 The provision for profit, or other assumptions that are pertinent to its derivation, may be specified to the actuary under the terms of an appropriate engagement.

Time Value of Money

- .15 The investment return rate for calculating the present value of cash flows would reflect the expected investment income to be earned on assets that might be acquired with the net cash flows resulting from the revenue at the indicated rate.

- .16 Among various possible sets of such assets the actuary would consider
- default-free assets of appropriate duration,
 - fixed income assets of appropriate duration, and
 - assets which are expected to be acquired.

- .17 The actuary would consider the fact that the provision for profit is not independent of the selected investment return rate and its associated uncertainty.

2630 REPORTING

- .01 *If an external user report is required and the actuary can report without reservation, the actuary's report should include the standard reporting language consisting of the following scope paragraph,*

I have derived the indicated rate(s) in accordance with accepted actuarial practice in Canada, on behalf of [entity commissioning the work], for the following insurance category(ies): [name of insurance category(ies)], to be effective Month XX, 20XX for new business and Month XX, 20XX for renewal business.

- .02 *If an external user report is required and the actuary cannot report without reservation, the actuary should modify the standard reporting language accordingly. [Effective January 1, 2012]*

- .03 An additional opinion paragraph may be included to conform to the requirements of an external user.