

## ***Educational Note***

# **2017 Guidance to the Appointed Actuary for Property and Casualty Insurers**

## **Committee on Property and Casualty Insurance Financial Reporting**

**October 2017**

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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 members.*

## MEMORANDUM

**To:** Members in the Property and Casualty Insurance Practice Area

**From:** Faisal Siddiqi, Chair  
Practice Council

Raul Martin, Chair  
Committee on Property and Casualty Insurance Financial Reporting

**Date:** October 26, 2017

**Subject:** **Educational Note – 2017 Guidance to the Appointed Actuary for Property and Casualty Insurers**

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In accordance with the Canadian Institute of Actuaries' Policy on Due Process for the Approval of Guidance Material Other than Standards of Practice and Research Documents, 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 October 24, 2017.

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 that the Educational 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 Raul Martin at [jscp@jscp.com](mailto:jscp@jscp.com).

FS, RM

## **1. Introduction** *(unchanged)*

The Committee on Property and Casualty Insurance Financial Reporting (PCFRC) of the Canadian Institute of Actuaries (CIA) prepared this educational note to provide guidance to the Appointed Actuary (AA) for property and casualty (P&C) insurers. This note reviews relevant standards of practice and other educational notes and discusses current issues affecting the work of the AA. Links to all the CIA documents referenced in this educational note are provided in appendix A.

## **2. Guidance to Members on Specific Situations** *(unchanged)*

From time to time, CIA members seek advice or guidance from the PCFRC. The committee strongly encourages such dialogue. CIA members are assured that it is proper and appropriate for them to consult with the chair or vice-chair of the PCFRC.

CIA members are reminded that responses provided by the PCFRC are intended to assist them in interpreting CIA standards of practice, educational notes, and rules of professional conduct, and in assessing the appropriateness of certain techniques or assumptions. A response from the PCFRC does not constitute a formal opinion as to whether the work in question is in compliance with the CIA standards of practice and rules. Guidance provided by the PCFRC is not binding upon the member.

## **3. Standards of Practice** *(modified)*

The standards are subject to revision from time to time. At the time of writing this educational note, amendments to part 1000 General Standards were being considered and amendments to part 2000 Insurance became effective April 15, 2017. The references in this educational note correspond to the versions effective January 1, 2018.

While all of the [rules of professional conduct](#) and [standards of practice](#) are important, your attention is directed to the following that are particularly relevant for AAs:

- Subsection 1340 – Materiality;
- Section 1500 – The Work;
- Section 1600 – Another Person’s Work;
- Section 1700 – Assumptions;
- Section 1800 – Reporting;
- Section 2100 – Insurance Contract Valuation: All Insurance;
- Section 2200 – Insurance Contract Valuation: Property and Casualty Insurance;
- Section 2400 – The Appointed Actuary; and
- Section 2500 – Dynamic Capital Adequacy Testing.

The following two changes were made to section 2500 – Dynamic Capital Adequacy Testing Standards of Practice:

June 9, 2015 <a href="#">Standards of Practice</a>	April 15, 2017 <a href="#">Standards of Practice</a>
2520.19 “A plausible adverse <u>scenario</u> would be a <u>scenario</u> of adverse, but plausible, assumptions about matters to which the <u>insurer’s financial condition</u> is sensitive.”	2520.18 “An adverse <u>scenario</u> would be characterized as a plausible adverse <u>scenario</u> if it is credible and has a non-trivial probability of occurring. The <u>actuary</u> may use percentile rankings of outcomes to determine whether a <u>scenario</u> is both plausible and adverse.”
2520.23 “In many cases, plausible adverse <u>scenarios</u> would be associated with a low probability of occurrence. In such cases, it would usually not be necessary for the <u>actuary</u> to construct integrated <u>scenarios</u> by combining two or more low-probability adverse <u>scenarios</u> .”	2520.22 “The <u>actuary</u> would construct integrated <u>scenarios</u> by combining two or more risk factors whose combination gives rise to a plausible adverse <u>scenario</u> .”

In addition, several revisions were made to part 1000 General Standards with respect to the use of models and will be effective January 1, 2018. In its [memorandum](#) on the final Standards of Practice, the designated group indicated that standard actuarial methods may be so deeply embedded in actuarial work that it may be unreasonable to expect an explicit justification for using that method; for this reason, new paragraph 1535.04 states that “A standard actuarial method used within a model in its proper context would be considered appropriate without further justification; for example, actuarial present value method for a pension valuation and the chain ladder method and Bornhuetter-Ferguson method for unpaid claims liabilities.”

In August 2017, a notice of intent was published to review the general standards of practice (part 1000) portion related to peer review. The AA would be familiar with this notice.

#### 4. Materiality (*unchanged*)

Materiality is addressed in [subsection 1340 of the Standards of Practice](#). As stated in paragraph 1340.02, “Judgment about materiality pervades virtually all work . . .”. The AA would communicate with the external auditor regarding materiality in accordance with the CIA/CICA Joint Policy Statement ([subsection 1630](#)).

The AA would consider the users of the report when selecting the level of materiality. For the Appointed Actuary Report (AAR), the end users are not limited to the users of the financial statements. The materiality threshold selected by the AA for the valuation of insurance contract liabilities usually would not be greater than the external auditor’s selected materiality threshold. However, it may be substantially less when the actuary considers it appropriate to select a lower threshold. The materiality selected by the AA for the dynamic capital adequacy

testing (DCAT) would usually be greater than the materiality selected for the valuation of insurance contract liabilities.

For further information on materiality, the AA is referred to the [CIA Report on Materiality](#).

## 5. Use of Another Person's Work (*unchanged*)

[Section 1600 of the Standards of Practice](#) discusses considerations when using another person's work. Paragraph 1610.07 notes that "the actuary may use and take responsibility for another person's work, given confidence that such actions are justified . . .". However, as indicated in paragraph 1610.08, "Failing such confidence, the actuary would not take responsibility for the other person's work." In this situation, the AA may still use another person's work, but, as stated in paragraph 1610.12, "If the actuary uses but does not take responsibility for another person's work, then the actuary would nevertheless examine the other person's work for evident shortcomings and would either report the results of such examination or avoid use of the work."

A particularly relevant example for AAs is the use of industry benchmarks related to Ontario automobile reforms. Similarly, the use of industry benchmark trend factors is another example. When using benchmarks developed by a third party, the AA would consider the professional requirements set out in section 1600.

## 6. Educational Notes and Other CIA Publications (*modified*)

To assist AAs in their year-end valuation or DCAT work, the following educational notes and documents are valuable sources of information: (It is expected that the following guidance material will be subject to minor revisions to align with the adoption of updated Standards of Practice for part 1000 General Standards expected to be effective January 1, 2018.)

- Educational note: [Duration Considerations for P&C Insurers](#) (March 2017);
- Educational note: [Use of Models](#) (January 2017);
- Second Revision – Educational note: [Premium Liabilities](#) (July 2016);
- Educational note: [Discounting and Cash Flow Considerations for P&C Insurers](#) (May 2016);
- Revised educational note: [Dynamic Capital Adequacy Testing](#) (November 2013);
- Revised educational note: [Subsequent Events](#) (October 2015);
- Educational note: [Evaluation of the Runoff of P&C Claim Liabilities when the Liabilities are Discounted in Accordance with Accepted Actuarial Practice](#) (June 2011);
- Research paper: [Disclosure Requirements IFRS 4 – Insurance Contracts for P&C Insurers](#) (October 2010);
- Educational note: [Margins for Adverse Deviations for P&C Insurance](#) (December 2009);
- Educational note: [Accounting for Reinsurance Contracts under International Financial Reporting Standards](#) (December 2009);
- Educational note: [Classification of Contracts under International Financial Reporting Standards](#) (June 2009);

- [Report of the CIA Task Force on Materiality](#) (October 2007);
- [Report of the CIA Task Force on the Appropriate Treatment of Reinsurance](#) (October 2007);
- Educational note: [Consideration of Future Income Taxes in the Valuation of Policy Liabilities](#) (July 2005); and
- Educational note: [Valuation of Policy Liabilities P&C Insurance Considerations Regarding Claim Liabilities and Premium Liabilities](#) (June 2003).

## 7. International Financial Reporting Standards (*modified*)

In May 2017, the International Accounting Standards Board (IASB) issued IFRS 17 Insurance Contracts, which will replace IFRS 4 effective January 1, 2021. The Canadian Accounting Standards Board has indicated its intention that, once adopted by the IASB, and subject to its due process, IFRS 17 will be adopted without modification for the valuation of insurance contracts in Canadian generally accepted accounting principles (GAAP) financial statements.

The new standard will affect P&C insurers in many ways. The AA is expected to be most significantly involved in the following:

1. Determination of the level of aggregation of insurance contracts. IFRS 17 (paragraph 14) states: “An entity shall identify *portfolios of insurance contracts*. A portfolio comprises contracts subject to similar risks and managed together.” IFRS 17 (paragraph 16) further requires that a portfolio of insurance contracts be divided into a minimum of the following:
  - a. A group of contracts that are onerous at initial recognition, if any;
  - b. A group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
  - c. A group of the remaining contracts in the portfolio, if any.
2. Selection of measurement approach. The premium allocation approach (PAA) can be used for measuring the liability for remaining coverages, which is conceptually similar to current premium liabilities for P&C insurers. The AA would likely be involved in decision-making (including associated modelling) regarding the use of the PAA, which is a simplified measurement of the general approach required in the standards (building block approach). According to IFRS 17 (paragraph 53), the PAA is allowed if, and only if, at inception of the group:
  - a. The insurer reasonably expects that such simplification would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the one that would be produced applying the requirements for the building block approach; or
  - b. The coverage period of each contract in the group is one year or less.

3. Calculations related to discounting, which differ significantly from current accepted actuarial practice in Canada. According to IFRS 17 (paragraph 36), the discount rates (i.e., yield curve) applied to the estimates of future cash flows shall do the following:
  - a. Reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts;
  - b. Be consistent with observable current market prices (if any) for financial instruments with cash flows whose characteristics are consistent with those of the insurance contracts, in terms of, for example, timing, currency and liquidity; and
  - c. Exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts.

A change for many P&C AAs will be a shift from a single discount rate to a yield curve, as well as a change from estimating an explicit provision for adverse deviations (PfAD) on investment returns to the new approach where the risk adjustment for financial risk is implicitly included in the yield curve (consistent with 3b) above).

The AA is also likely to be involved in the decision-making related to discounting, in particular the accounting policy choice as to whether the effect of a change in discount rate is recognized in the current period profit/loss or other comprehensive income.

4. Calculations related to risk adjustment for non-financial risk, which will likely differ from existing PfAD. IFRS 17 (paragraph 37) requires an insurer to “adjust the estimate of the present value of the future cash flows to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.” IFRS 17 (paragraph 119) states that an insurer “shall disclose the confidence level used to determine the risk adjustment for non-financial risk. If the entity uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk, it shall disclose the technique used and the confidence level corresponding to the results of that technique”.
5. Preparation of materials for both the presentation of key financial statements as well as the disclosures, which are extensive. IFRS 17 (paragraph 78) requires an insurer to present separately in the statement of financial position the carrying amount of groups of the following:
  - a. Insurance contracts issued that are assets;
  - b. Insurance contracts issued that are liabilities;
  - c. Reinsurance contracts held that are assets; and
  - d. Reinsurance contracts held that are liabilities.

Under the new approach, for example, the deferred acquisition expenses and premiums due would no longer be shown separately on the asset side of the balance sheet but rather those accounts will be reflected in the provision for insurance contracts liabilities.

For the most current information, please see the [IASB Website](#). Note that an eIFRS professional account is required to access the final standards and related documents. It would be advisable to the AA to get a copy of the final standards and the basis for conclusions from the insurer's auditor.

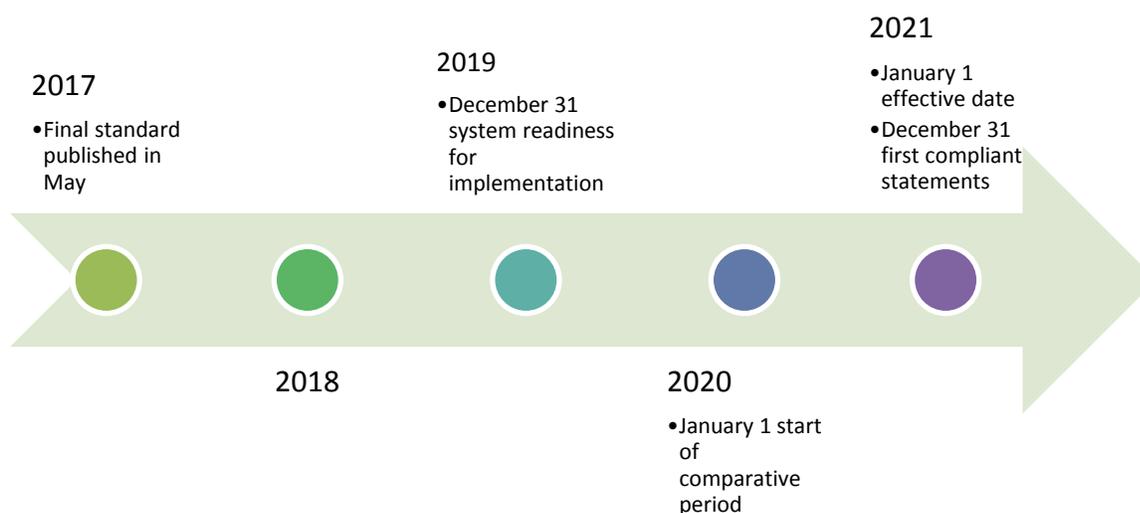
The CIA Committee on International Insurance Accounting (IIAC) under the International Relations Council has the following mandate with regard to IFRS 17:

- Educate CIA membership about the new standards, via presentations at industry meetings, newsletters, etc.;
- Identify how IFRS 17 differs from the current CIA valuation methodologies (IIAC's transition guidance expected early 2018);
- Develop CIA guidance to supplement International Actuarial Association (IAA) guidance to address Canadian-specific issues that are not addressed in IAA guidance, if needed; and
- Assess whether current CIA guidance is still relevant, and edit/remove as appropriate, and work in collaboration with the practice-specific committees to implement those recommendations (PCFRC's guidance expected late 2018 or early 2019).

It is expected that the AA would likely be actively involved in the implementation of IFRS 17 and would regularly engage with auditors and professionals responsible for the preparation of financial statements.

In June 2017, the IAA issued Exposure Draft of Proposed International Standard of Actuarial Practice 4 IFRS 17 Insurance Contracts (ISAP 4). ISAP 4, when adopted, is intended to cover actuarial practice in support of valuation of insurance contract liabilities in accordance with IFRS 17. The requirements of ISAP 4 will apply only to work performed in Canada once those requirements are incorporated into the Canadian actuarial standards of practice. The Actuarial Standards Board (ASB) formed a designated group to develop a new part to the standards of practice to apply to Canadian actuaries doing valuation of insurance contract liabilities in accordance with IFRS 17. The foundation for the new part is ISAP 4.

IFRS 17 will bring significant changes to insurers in Canada, and there is likely a tremendous amount of work that must be performed before the effective date of January 1, 2021. Insurers are required to present restated comparative information and should therefore be ready for implementation at the end of 2019. The AA is encouraged to stay abreast of the latest developments and take action early where necessary. The following diagram illustrates the timing of implementation:



Please refer to appendix A for links to relevant IFRS webinar presentations.

## 8. Regulatory Guidance (*modified*)

We remind AAs to refer to updated communications from provincial and/or federal insurance regulators regarding insurance contract liabilities valuation and DCAT reporting.

### 8.1. Office of the Superintendent of Financial Institutions Requirements

#### 8.1.1. OSFI Annual Memorandum for Actuarial Reports on P&C Business

The [Office of the Superintendent of Financial Institutions](#) (OSFI) issues a [memorandum for the AA](#) on an annual basis. AAs would consult this memorandum for complete instructions from OSFI.

#### 8.1.2. Capital Requirements

In this section, references to OSFI's Minimum Capital Test (MCT) for Canadian insurers are intended to encompass comparable requirements for Canadian branches of foreign insurers, i.e., the Branch Adequacy of Assets Test (BAAT).

The latest [MCT Guideline](#) currently in effect released by OSFI was issued in November 2015 with an effective date of January 1, 2016. No changes are expected in the formula for year-end 2017.

A draft of the 2018 MCT guideline was issued for public consultation in summer 2017. The [final guideline](#) was published on October 19, 2017 with an effective date of January 1, 2018 and included the following amendments:

- Provide clarification in respect of inquiries received during the year;
- Remove requirements that are no longer applicable;

- Align terminology and examples in the guideline to the returns, for consistency; and
- Ensure consistency in capital requirements across financial services sectors, where applicable.

OSFI has also undertaken a review of the capital requirements for accident and sickness business to ensure capital requirements continue to accurately reflect risks faced, and provide consideration given to the requirements under the new Life Insurance Capital Adequacy Test (LICAT). The final capital requirements for mortgage insurers were issued in December 2016 and effective January 1, 2017.

### **8.1.3. Stress Testing**

From time to time, OSFI may ask institutions to carry out standardized scenario tests to assess system-wide vulnerabilities. No stress testing was required by OSFI in 2017.

### **8.1.4. Guideline A-4 Regulatory Capital and Internal Capital Targets**

This [guideline](#) currently in effect was last updated effective November 2015. The guideline sets out OSFI's expectations with respect to the setting of insurer-specific target capital ratios and how such targets relate to the assessment of capital adequacy within the context of OSFI's supervisory framework. The AA would usually be involved with and understand the insurer's process and assumptions used to select the target capital ratio.

A revised draft of this guideline was issued for public consultation in summer 2017. The final guideline is expected to be published in fall 2017 with an effective date of January 1, 2018 and includes amendments resulting from the implementation of the new LICAT in 2018 and updates to the terminology for consistency and flow. There are no significant changes applicable to P&C insurers.

### **8.1.5. Guideline E-19 Own Risk and Solvency Assessment**

This [guideline](#) currently in effect was last updated effective November 2015. It sets out OSFI's expectations with respect to an insurer's own assessment of its risks, capital needs, and solvency position and for setting internal targets.

AAs would usually be involved in the preparation of the Own Risk and Solvency Assessment (ORSA), considering the significant contribution they have in preparing several elements that are part of ORSA such as DCAT, stress testing as per Guideline E-18, internal capital target setting (Guideline A-4), and the policy liabilities valuation report. AAs may also be involved in the qualitative aspects of ORSA, such as assisting in the determination of the risk appetite and risk tolerance of the insurer. The report has to be reviewed and discussed by the board or the chief agent annually (before December 31 of each year). The key metrics report form should be submitted to OSFI at least annually and within 30 days of being reviewed by the board of directors or signed off by the chief agent.

Revised drafts of this guideline and the key metrics report were issued for public consultation in summer 2017. The final guideline is expected to be published in fall 2017 with an effective date of January 1, 2018 and includes minor clarifications to existing guidance. There are no significant changes applicable to P&C insurers.

### **8.1.6. Guideline E-15 Appointed Actuary: Legal Requirements, Qualifications, and Peer Review**

A full peer review of the AAR and DCAT report is required every three years. In addition, OSFI expects the reviewer to undertake a limited annual review, and to prepare and file a report annually.

### **8.1.7. Guideline B-9 Earthquake Exposure Sound Practices**

The [Earthquake Exposure Data Form and instructions](#) must be filed by May 31 of each year. The form should be filed using the Regulatory Reporting System.

## **8.2. Requirements of the Autorité des marchés financiers (AMF)**

### **8.2.1. AMF Annual Guides for Actuarial Reports on P&C Business**

The AMF issues specific guides to AAs of Québec-chartered insurers for both the valuation of insurance contract liabilities and DCAT. The AA would consult these guides for the complete requirements from the AMF.

The AMF guide regarding the mandatory insurance contract liabilities report is updated annually and covers regulatory requirements and the report's expected content and prescribed layout. The AMF guide also mandates prescribed exhibits for reporting results of the AA's valuation of insurance contract liabilities. [Prescribed exhibits](#) include the unpaid claims and loss ratio exhibits for which specific [instructions](#) are also available along with the guide.

The AMF also publishes a guide for the preparation of the report on the insurer's financial condition (DCAT report). This guide is updated annually, usually in November, and covers the same general aspects as the guide on the valuation of insurance contract liabilities. When completing the DCAT report, AAs are advised to be aware of the latest developments in the calculation of the MCT ratio. The AMF requires the AA to annually disclose the insurer's internal capital target ratio and the DCAT guide states that the actuary would take care to detail the methodology and assumptions used in the determination of the internal capital target ratio.

### **8.2.2. Capital Requirements**

In November 2016, the AMF published its [revised MCT Guideline](#) that came into effect on January 1, 2017. The changes consist of some minor corrections and clarifications with no impact on the level of available and required capital.

The AMF issued its draft 2018 MCT guideline in June 2017 for public consultation. The final guideline is expected to be published in fall 2017 with an effective date of January 1, 2018. The proposed changes are harmonized to a significant extent with the changes to OSFI's MCT guideline.

AAs of Québec-chartered insurers would also be aware that data regarding earthquake exposure should now be filed annually by April 15, using the AMF [Earthquake Exposure Data Form](#) and [Instructions](#) and based on latest year-end exposure.

AAs would be expected to be familiar with any subsequent revision to the capital requirements and incorporate them where applicable.

### 8.2.3. Stress Testing

From time to time, the AMF may ask institutions to carry out standardized scenario tests to assess system-wide vulnerabilities. No such specific standardized test was requested in 2017.

The actuary is reminded that the insurer's performance in previous stress tests can be a useful consideration for the actuary when designing/selecting current-year insurer-specific scenarios.

### 8.2.4. Integrated Risk Management Guideline and Capital Management Guideline

In May 2015, the AMF published a revised version of its [Integrated Risk Management Guideline](#) to accompany the publication of its new [Capital Management Guideline](#). The revision and the addition of the new guideline are meant to update certain concepts and to give specific expectations regarding capital and risk management, particularly for elements such as the

- Notions of risk appetite and risk tolerance levels;
- Relations between the risk management framework, the solvency position, and the strategic objectives of the insurer and their disclosure to the board of directors and senior management; and
- ORSA related to capital management (governance, choice of capital instruments, planning of capital needs) and their impact on the insurer's risk profile.

Insurers were expected to implement the revisions and the new guideline by May 1, 2016, by developing strategies, policies, and procedures based on their nature, size, complexity, and risk profile.

The AMF expects the application of the ORSA mechanism to be the subject of an official report to the board of directors at least once a year, or more often if the financial institution's risk profile changes significantly. A first report was expected to be presented by the insurers in 2016 and be made available to the AMF upon request.

## 9. Current or Emerging Issues and Other Considerations (*modified*)

### 9.1. Auto Reforms

#### General

The AA would consider the potential effect that automobile product reforms might have on the valuation of insurance contract liabilities and DCAT. The comments below pertain to the most significant recent product reforms by jurisdiction.

#### Ontario

At year-end 2017, the AA would be expected to continue to consider the effect of Ontario auto reforms on the valuation of insurance contract liabilities and DCAT.

Before using post-reform claims experience for valuation purposes, the AA would consider the maturity of such claims experience. If the post-reform experience is not considered to be fully credible for the valuation of insurance contract liabilities and DCAT, it would be reasonable to carry forward a priori assumptions regarding the estimated effect of product reforms, subject

to consideration of rate changes, loss cost trend, and other on-level adjustments as appropriate.

In 2016, there were changes to the regulations in Ontario accident benefits with an aim to reduce costs in the auto insurance system and to bring them more in line with those of other provinces and include more choice for consumers.

As of April 1, 2016, the Financial Services Commission of Ontario (FSCO) no longer administers the dispute resolution system as it pertains to disputed accident benefits claims. This function was moved to the Ministry of the Attorney General under the Safety, Licensing Appeals and Standards Tribunals Ontario (SLASTO). All disputes are now heard exclusively by the License Appeal Tribunal (LAT), which is a part of SLASTO.

Since inception, the LAT has not been used as much as FSCO. This could be due to a general wait-and-see approach being taken by many stakeholders as they learn the nuances of the new system and the types of decisions being released.

In parallel, there is a constitutional challenge being led by a prominent plaintiff lawyer. The argument is that the removal of the claimant's access to the court system is a fundamental flaw as access to justice is severely restricted if the only avenue to dispute an insured's decision is through the LAT. At the writing of this educational note, the challenge had been dismissed by the Ontario Superior Court of Justice on May 31. It is unknown if there will be an appeal.

As a result of these environmental conditions, few significant accident benefits decisions have materialized in recent periods. One decision of note from the prior dispute system is described later in section 9.3.

Effective August 1, 2015, [amendments](#) to the Insurance Act Regulation 461/96 were put in place to reflect inflation. Details of these changes can be found in last year's annual guidance to the AA.

FSCO published revised technical notes effective February 2015 that included updated Ontario industry benchmark assumptions. Changes included benchmark loss trends and 2010 reform loss cost adjustment factors. More detail can be found in prior annual guidance to the AA. Additional reform rate filing guidelines including Ontario industry reform benchmark assumptions were published September 2015. However, in the latest published technical notes dated July 2017, FSCO no longer publishes the 2010 reform benchmark.

### **Alberta**

The Minor Injury Guideline (MIG) is under review in Alberta as the current Minor Injury Regulation expires on September 30, 2018.

### **Nova Scotia**

Effective April 1, 2013, the direct compensation for property damage framework was introduced as well as the new minor injury treatment protocol (based on Alberta's current model).

The MIG is also under review in Nova Scotia.

## 9.2. Changes in Taxes (for use in DCAT and Valuation of Premium Liabilities)

### Saskatchewan

Effective August 1, 2017, the provincial sales tax of 6% newly applies on insurance premiums.

### Prince Edward Island

Effective January 1, 2017, the premium tax rate increased from 3.5% to 4%.

## 9.3. Recent Judicial, Legislative, and Political Events

Regular communications with claims professionals is essential to the work of the AA. These discussions would encompass the potential effect of recent court decisions, judicial events, and political events that may be relevant to the valuation of insurance contract liabilities and DCAT.

Recent examples of such events include the following:

- *MVACF v. Barnes (2017 – FSCO appeal decision)*

It was determined that amendments to the Statutory Accident Benefits Schedule (SABS) effective February 1, 2014 could be applied to an ongoing claim with a date of loss preceding the changes. All attendant care services provided after February 1, 2014 were subject to the economic loss of the service provider rather than payment in accordance with the Form-1 rate.

- *Saadati v. Moorehead (2017)*

The Supreme Court of Canada ruled that a psychiatric diagnosis is not a prerequisite to mental injury. Tort victims may recover damages for their mental injuries without proving that they have a medically recognized psychiatric or psychological illness or condition.

- *Kapoor v. Kuzmanovski (2017 ONSC 1709)*

The plaintiff brought a motion before the commencement of jury selection to exclude potential jurors who pay automobile insurance premiums or on whose behalf such premiums are paid, due to an inherent conflict of interest. The motion was adjourned to allow the Crown and the Advocates' Society to provide arguments. No date has been set, but this decision has the potential to affect the ability to have jury trials in auto bodily injury cases.

- *Sabean v. Portage La Prairie Mutual Insurance Co. (2017)*

A recent decision of the Supreme Court of Canada, stemming from a Nova Scotia contract law case, holds that Canada Pension Plan (CPP) disability is not deductible against an SEF 44 policy (i.e., your own insurer).

The decision *Sabean v. Portage La Prairie Mutual Insurance* came out in January 2017 and was an appeal from a NS case dealing with deductibility of CPP disability benefits from an SEF 44 claim. The Supreme Court of Canada overturned the Nova Scotia Court of Appeal and held that the CPP benefits are not deductible on the basis that the

Canada Pension Plan disability benefits are not disability benefits from a "policy of insurance" within the meaning of cl. 4(b)(vii) of the SEF 44 Endorsement. Thus, future CPP disability benefits are not deductible from the amounts payable by the insurer under the Endorsement.

*Tibbetts v. Murphy (2017)*

A recent Nova Scotia Court of Appeal decision (related to tort law) holds that CPP disability is deductible when suing a driver who caused an accident. This decision may also apply to Newfoundland tort claims due to similar legislation and case law.

*El-Khodr v. Lackie (2015)*

The judge in a lower court disagreed with Cirillo's decision and upheld the 5 percent pre-judgment interest rate resulting from a motor vehicle accident prior to January 1, 2015.

The Ontario Court of Appeal in two landmark decisions concluded that it was in fact retroactive and applied to all actions settled or tried after the amendment came into effect. In addition, the Court of Appeal confirmed that the higher indexed deductible introduced on August 1, 2015 is retrospective and applies to all actions tried after the amendment came into effect. Finally, in a complete reversal of a much earlier decision, the Court of Appeal concluded that all income replacement benefits, including settlements of such benefits, received by the plaintiff before trial must be deducted from the total of all damages awarded at trial for past and future income loss arising from the same incident. This also applies to all other pecuniary losses. Also, the strict matching requirement between heads of damage and collateral benefits is no longer applicable. As such, all AB benefits paid are to be deducted from the tort settlement. The Court was quite clear that double recovery by the plaintiffs must be avoided.

Additional historical court cases that are still relevant are listed in prior annual guidance to the AA.

#### **9.4. Catastrophic Events**

From time to time, catastrophic events occur that have the potential to affect an AA's estimate of claim liabilities and, in some cases, the premium liabilities. Events that are considered catastrophic on an industry-wide basis may not have a catastrophic effect for a given insurer, while smaller industry events may. The extent to which any event is significant in the context of the valuation of a specific insurer's insurance contract liabilities depends on the nature of the insurer's business, its exposure in the affected region, policy wordings, and the date on which the event occurred. For example, the timing of this year's wildfires in British Columbia may necessitate a review of the educational note on subsequent events as the AA supports quarterly financial reporting.

The AA would consider the effect of extreme events on the following:

- Additional costs on other losses due to post-event inflation in the region as well as the rest of the country;

- The payment pattern and any change that the event may have on paid claims;
- Unallocated loss adjustment expenses (ULAE) estimates that may need to be tempered to the extent that the factor used to calculate the provision is a ratio to unpaid losses; and
- Margins for adverse deviations, particularly for recovery from reinsurance ceded.

### 9.5. Climate-Related Financial Disclosures

The Task Force on Climate-related Financial Disclosures (TCFD) from the Financial Stability Board released its [final report](#) on June 29, 2017. The report notes that the TCFD “believes climate-related issues are or could be material for many organizations, and its recommendations should be useful to organizations in complying more effectively with existing disclosure obligations. In addition, disclosure in mainstream financial filings should foster shareholder engagement and broader use of climate-related financial disclosures, thus promoting a more informed understanding of climate-related risks and opportunities by investors and others.”

The TCFD’s recommendations focus on four areas:

- Governance: Disclose the organization’s governance around climate-related risks and opportunities;
- Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organization’s business, strategy, and financial planning where such information is material;
- Risk management: Disclose how the organization identifies, assesses, and manages climate-related risks; and
- Metrics and targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

There is currently no timeline for adoption.

## Appendix A

The following is a list of selected documents referenced in this educational note:

### Standards of Practice

- [Standards of Practice](#)
- [Rules of Professional Conduct](#)

### Task Force Reports

- [Materiality](#) (October 2007)
- [Appropriate Treatment of Reinsurance](#) (October 2007)

### Educational Notes

- [Duration Considerations for P&C Insurers](#) (March 2017)
- [Use of Models](#) (January 2017)
- [Premium Liabilities](#) (July 2016)
- [Discounting and Cash Flow Considerations for P&C Insurers](#) (May 2016)
- [Dynamic Capital Adequacy Testing](#) (November 2013)
- [Subsequent Events](#) (October 2015)
- [Evaluation of the Runoff of P&C Claim Liabilities when the Liabilities are Discounted in Accordance with Accepted Actuarial Practice](#) (June 2011)
- [Accounting for Reinsurance Contracts under International Financial Reporting Standards](#) (December 2009)
- [Margins for Adverse Deviations for Property and Casualty Insurance](#) (December 2009)
- [Classification of Contracts under International Financial Reporting Standards](#) (June 2009)
- [Consideration of Future Income Taxes in the Valuation of Policy Liabilities](#) (July 2005)
- [Valuation of Policy Liabilities P&C Insurance Considerations Regarding Claim Liabilities and Premium Liabilities](#) (June 2003)

### Research Paper

- [Disclosure Requirements IFRS 4 – Insurance Contracts for P&C Insurers](#) (October 2010)

### Webinars (IFRS)

- [CIA – IFRS 17: Implications of the Proposed New Valuation Standard – Case Studies](#) (May 2017)
- [CIA – IFRS 17: A Basic Overview of the Proposed New Valuation Standard](#) (December 2016)