The Canadian actuarial profession has been very active at the international level, primarily through the International Actuarial Association (IAA) and its various committees and working groups. This involvement has proven to be important as Canada and the rest of the world move towards implementation of International Financial Reporting Standards (IFRS). In this article, we take a high-level look at Canada’s influence in the actuarial world of insurance risk, finance, and policyholder protection, and how IFRS 17 on insurance contracts will affect the work done by Canadian actuaries over the next few years.

STRONG CANADIAN PRESENCE AT THE IAA

The IAA can best be described as “an association of associations”, a body where actuarial organizations from each country can meet and develop approaches to issues of global interest. From its founding in 1895 until the early 1990s, the IAA was primarily an academic forum, comprised of individual actuaries, as opposed to national organizations.

The move from that model to where we are today was due to the efforts of many individual actuaries, one of the most prominent being Paul McCrossan, a former member of Parliament and a former President of the Canadian Institute of Actuaries. Since then, the Canadian influence on the IAA has been substantial.

INTERNATIONAL ACTUARIAL STANDARDS

When it became apparent that IFRS were going to become reality, the IAA began to consider the development of international actuarial standards, which would provide guidance that member associations could use as they implemented IFRS locally. Even though the IAA does not have the ability to mandate the adoption of standards, the international standards were seen as a useful tool to help IAA member organizations transition actuarial practice to the new accounting basis.
Former CIA President Dave Pelletier was asked to lead the IAA’s Actuarial Standards Committee, which was formed in 2010 to steer the development of these international standards. Mr. Pelletier also served as chair of the Standard-Setters Round Table (SSRT), a standalone group of representatives from actuarial standards-setting bodies in over a dozen countries. While primarily a forum to exchange information among standard-setters, the SSRT also provides input to the IAA on new standards, and serves as a sounding board for proposed changes.

IFRS 17 – INSURANCE CONTRACTS

The international accounting standard with the most influence on insurance practice is IFRS 17 which replaces IFRS 4 on accounting for insurance contracts. IFRS 17 will be a complex standard that will include some fundamental differences to current accounting in both liability measurement and profit recognition. These changes to accounting standards have a significant impact on actuarial standards.

In response, the IAA is developing International Standard of Actuarial Practice 4 (ISAP 4), a model standard which member associations can use in conjunction with IFRS 17. The current Chair of the IAA’s ISAP 4 Task Force is former CIA President Micheline Dionne.

The challenge with ISAP 4 is to apply consistent actuarial practices across countries where insurance contracts have historically evolved with different approaches and features. The Canadian approach to standard setting, which has emphasized principles over prescription, has been a useful model to follow in the development of ISAP 4. In addition, a series of International Actuarial Notes (IANs) is being developed, which local organizations can adopt as guidance to supplement any new or revised standards.

IMPACT ON CANADIAN INSURERS

The adoption date for IFRS 17 is January 1, 2021, but the work for Canadian insurance companies has already started. IFRS 17 represents a major overhaul of accounting statements; consequently, the valuation methodology underlying financial reporting by insurance companies needs to be revised.

Some areas of Canadian actuarial work, such as the assumption-setting process, will likely be minimally impacted. Other areas, though, represent a major change in how financial results are determined.

In an October 2017 interview with Amanda Lang at the annual National Insurance Conference of Canada (NICC), Neville Henderson, assistant superintendent, insurance supervision sector at the Office of the Superintendent of Financial Institutions (OSFI), restated OSFI’s mandate as ensuring Canadian policyholders are protected through adequate levels of insurance company capital, and that IFRS 17 would likely impact insurance company reserves and capital requirements. Since comparative results must be presented for 2020 on both the current and revised bases, Canadian insurers need to have IFRS 17 implemented internally well before 2021.

UPDATING CANADIAN ACTUARIAL STANDARDS

The Actuarial Standards Board (ASB), which is responsible for setting actuarial standards in Canada, has been watching developments with IFRS very closely, and is actively working on integrating ISAP 4 into Canadian standards. This will affect all insurance business—life as well as property and casualty—and will also have an impact on workers’ compensation plans.
The ASB is an entity that is independent from the CIA itself, and reports to the Actuarial Standards Oversight Council (ASOC), which is comprised of seasoned professionals and business people with experience in the financial sector. Within the CIA, its Board recently created an IFRS 17 Steering Committee (co-chaired by Les Rehbeli and Cynthia Potts), whose mandate is to ensure that appropriate guidance and education is provided to CIA members respecting IFRS 17.

The steering committee will work closely with the CIA’s Practice Council (PC) and its various practice committees that are responsible for financial reporting in Canada, including the Committee on Life Insurance Financial Reporting, the Committee on Property and Casualty Insurance Financial Reporting, and the Committee on Property and Casualty Insurance Pricing. The PC and these committees, working jointly with the IFRS 17 Steering Committee and the International Insurance Accounting Committee, will also review the aforementioned IANs to determine how they will be adopted, and what existing guidance will need to be revised or replaced. As well, the International Insurance Accounting Committee is developing a research paper to guide CIA members through the transition.

CANADA: A LEADER IN ACTUARIAL THINKING

In all, IFRS changes represent a significant undertaking for the actuarial profession in Canada and the rest of the world. Fortunately, the Canadian influence in the international actuarial community has provided a measure of familiarity as Canadian actuaries work through these changes. Strong Canadian involvement reaffirms Canada’s role as a leader in actuarial thinking.

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Jacques Tremblay has over 30 years of experience in the life insurance industry. As well as serving currently on multiple CIA committees he is the Vice-chair of the IAA Accounting Committee overseeing IFRS 17 developments. Mr. Tremblay is a Past President of the Canadian Institute of Actuaries, a partner with the actuarial consulting practice of Oliver Wyman, and is the Appointed Actuary for five clients.

1  PWC, “The wait is nearly over? IFRS 17 is coming, are you prepared for it?” https://www.pwc.com/gx/en/insurance/publications/assets/the-wait-is-nearly-over.pdf (accessed February 20, 2018).