

MEMORANDUM 2001

FOR THE ACTUARY'S REPORT ON

PROPERTY AND CASUALTY INSURANCE BUSINESS

1.0 INTRODUCTION

This Memorandum/Instructions describe the requirements of the Office of the Superintendent of Financial Institutions (OSFI) and the Financial Services Commission of Ontario (FSCO). Additional special jurisdictional requirements may be included in the covering letter from the regulator to the insurer which accompanies these instructions. Such additional requirements must be considered as part of these instructions.

Many insurers are required to file an Actuary's Report, as part of the annual return forms, with more than one regulator, federal or provincial, in Canada. It is the responsibility of the insurer to ensure that the Actuary's Report submitted as part of the annual return to each regulator complies with the requirements of that regulator.

The term "Actuary's Report" 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.

This notice:

- sets out the minimum standards used in determining the acceptability of the Actuary's Report; and
- provides guidance for actuaries preparing reports in matters relating to presentation, level of detail and nature of the discussions to be included.

2.0 NOTE ON REGULATORY REQUIREMENTS

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

Regulators require that the Actuary's valuation of all policy liabilities be in accordance with accepted actuarial practice subject to any additional requirements of the Superintendent.

The Canadian Institute of Actuaries (CIA) has prescribed the Standards of Practice for the Actuary's Report for insurance company published financial statements. The Actuary's Report is expected to conform to this standard. "Policy liabilities" typically consist of claims liabilities for claims incurred but not yet paid and premium liabilities associated with unearned premiums on unexpired policies. Policies include reinsurance agreements.

Generally the actuarial opinions presented to the shareholders and policyholders of an insurance company should essentially be 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 reports, 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 includes forms P&C-1 and P&C-2.

2.2 Marine Insurance

Marine insurance business, if transacted, must be included within the scope of the Actuary's Report if the report is part of a P&C-1 Annual Return filing.

2.3 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 separate instructions (if any) issued by their regulators regarding the valuation of life insurance and accident and sickness business and the Actuary's Report covering such business. The opinion described later in this document, included in the report, should cover these related provisions.

2.4 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, the Actuary's Report must include a discussion of the reasons for the differences.

For federally 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 best estimate figures calculated by the Actuary.

The Actuary's Report must contain details of policy liabilities included in the Annual Return. For each line of business, the Actuary's Report should provide the rationale and justification for the selection of the Actuary's estimate from the range of values calculated by different methods.

2.5 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 should contain a properly signed copy of the Actuary's Report.

An insurance company that files its Annual Return without including the Actuary's Report will not be deemed to have satisfied the requirements of the Acts 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.

3.0 FORMAT AND CONTENT OF THE ACTUARY'S REPORT

3.1 General

It is expected that each report will be clear and complete. In summary, the report should clearly present and support the determination of the proper amounts of total policy liabilities so derived by the person signing the report and a reconciliation of any differences between such proper amount and the figures shown in the annual P&C-1 and P&C-2 return forms.

One section of the report should deal exclusively with the claims liabilities and another section exclusively with premium liabilities. Each should include all the elements noted in general comments above, as well as any other information needed to support the conclusion reached.

3.2 Compliance

The report should clearly identify any items, which might be excluded from the scope of the report or are not treated in compliance with this Memorandum. The rationale for such exclusion or non-compliance should be provided.

3.3 Index

A table of contents or index must be included at the beginning or at the end 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 or index.

3.4 Persons Signing the Actuary's Report

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

3.5 Contents of Report

The contents of the report should be divided into five sections:

Part 1 - Introduction and Scope

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.

A brief description of the company's operations should be given, particularly indicating changes in management or ownership, changes in management policies and claims administration and reserving procedures, and changes in underwriting procedures and type of business written.

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;
- the procedures and/or methodology used to transform such data into data which may be suitable for the valuation;
- the procedures and steps undertaken to ensure that the valuation data is sufficient, reliable and accurate.

The Actuary may decide to rely on the verification of data based on work done by the External Auditor. Should that be the case, it should be mentioned in the introduction, together with details of the verification work done by the Auditor and identification of the person responsible for the verification work.

If the author has relied on a valuation prepared by another Actuary, the scope of such reliance must be disclosed and a justification for such reliance must be presented.

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

Part 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 standard of practice titled "The Appointed Actuary's Report for Insurance Company Published Financial Statements", with the following additions:

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

The opinion wording in the Actuary's Report should include the following text:

"I am satisfied that the data utilized are reliable and sufficient for the valuation of these liabilities. 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. For branches where the External Auditor Report is not available at the time the Actuary has to render his opinion, the opinion should clearly state that it is a qualified opinion, conditional upon receiving an unqualified opinion from the External Auditor.

Part 3 - Comparison of Actual Experience with Expected Experience in the Previous Year-End Valuations.

In order to assess the effect of changes in the estimated claims liabilities, OSFI requires that a comparison of Actual Experience with Expected Experience be provided for the last four years. For Ontario incorporated companies, it should be noted that FSCO requires a minimum of a two years' comparison.

Actual Experience refers to the ultimate estimates selected for each accident year for each line of business valued as of year-end 2001 [usually December 31, 2001]. Expected Experience in Previous Year End Valuations refers to the ultimate estimates selected for each accident year for each line of business valued as of year-end 1997, 1998, 1999, **and 2000** [usually December 31, 1997, 1998, 1999 **and 2000**].

In respect of the policy liabilities for unpaid claims (i.e. claims liabilities) valued for each line of business in the **four** previous year-end actuarial reports, the Actuary should provide a comparison of the ultimate estimates selected in the previous year-end actuarial reports, with the ultimate estimates selected in the **2001** year-end actuarial report for each accident year. Whenever material differences in ultimate estimates occur for any accident year, the Actuary should provide appropriate comments explaining such changes in ultimate estimates for each accident year.

Please note, that in the specific circumstances where the discounting of liabilities is allowed, the Actuary should provide a comparison of actual experience and expected experience on a basis, which is appropriate under the circumstances.

Part 4 - Commentary

This section should provide relevant commentary for each line of business.

Comments on each line should include:

- a full description of the case reserving process, including particularly the reserving of weekly indemnity claims;
- an explanation of how the provisions are supported by the calculations and data contained in the report and the method(s) and/or assumptions applied;
- a reconciliation, if necessary, of the provisions with the amounts shown in the Annual Return;
- any significant changes in assumptions or techniques from the previous valuation report, the financial impact of such changes measured as at the current valuation date and the justification for such changes;
- the principal characteristics of each line of business, including the frequency and severity of large losses;

- any significant change in the company's marketing strategy, mix of business, level of retention, level or type of reinsurance coverage, method of recording data, settlement policies or year-end cut-off dates, to the extent that such changes are relevant to the valuation of the liabilities;
- the expected ultimate claims and claim ratios for each accident year;
- for automobile weekly indemnity claims, trends in the number and type of claims, trends in amount of indemnity, and changes in reserving procedures;
- impact of participation in industry pools;
- impact of inter-company pooling agreements, with a full description of those in which the insurer participates;
- the treatment of mass tort and environmental liabilities in the calculation of the provisions for unpaid liabilities; and
- for automobile accident benefits claims, the provision for adverse deviation (PFAD) and the considerations made in the determination of PFAD.

References to the database and exhibits should be clearly indicated where appropriate.

Part 5 - Database and Exhibits

This section should include numeric information that will constitute a summary database and a set of derived exhibits for each significant line of business.

It is important that each exhibit and table identify clearly on which basis the figures are presented (direct, assumed and net).

For each line of business, the summary database should include accurate, historical information that can be readily reconciled to the records of the company. More specifically, the summary database of claim information should include, for each line of business, on a direct, assumed and net basis, the following data triangles by accident year:

- the cumulative paid losses, including paid adjustment expenses where appropriate, for each accident year, observed at regular intervals;

- the case reserves, including reserves for adjustment expenses where appropriate, for each accident year, observed at regular intervals;
- the cumulative number of claim units reported, for each accident year, observed at regular intervals; and
- the number of claim units still unsettled, for each accident year, observed at regular intervals.

Whenever large retention limits are used (i.e. excess loss, large or aggregate deductibles, self-insured retentions, etc.) the "ground up" loss figures, when available, should be included in the report.

In exceptional cases, the summary database may be different from the situation described here, only to the extent that such differences are necessary for the proper valuation of the policy liabilities.

For each line of business, the derived exhibits should include any necessary modifications, adjustments, combination and analysis, derived from the summary database or from prior exhibits.

Such modifications, adjustments, combination and analysis might include:

- the determination of cumulative incurred losses;
- the calculation of average case reserves;
- the modification necessary to adjust for the strengthening of reserves and changes in the speed of the finalization of claims;
- the recasting of paid or incurred losses at different levels of retention;
and
- the determination of appropriate average development factors, of appropriate tail factors, of appropriate inflation trends, and other such calculations.

Important: In all such cases, the modifications should be clearly indicated and justified.

The derived exhibits should also include the calculation of the ultimate values (undiscounted or discounted where permitted) used to determine the proper provisions.

Part 6 - Data Reliability and Consistency

The Actuary's Report must state the procedures used in the verification of valuation data. The extent of the Actuary's use of the Auditor's work should be detailed.

The standard of care, specified in the recommendations, requires that the Actuary assure suitable procedures to verify that the data utilized is reliable and sufficient for the valuation of policy liabilities. The statutory requirements that the Actuary file a report, with the Annual Return, assume that the Actuary has met the standard of care, as required by the CIA.

The CIA/CICA's "Joint Policy Statement" (JPS) states that the Actuary may "consider using the work of the Appointed Auditor with respect to the accuracy and completeness of data used to determine the amounts" contained in the Annual Return. The Superintendent assumes that tests of accuracy and completeness comprise more exhaustive and difference checking than would normally arise in the course of the Actuary's own work in complying with the recommendations.

The JPS outlines that the Actuary may use the Auditor's work provided that the Actuary "takes reasonable care to determine that there is a basis for such use". This reasonable care includes the establishment of communication between the two professionals, ensuring the Auditor is aware of the intended use of the work, and aware of the Actuary's needs. Discussions on "any problems expected in meeting the needs...on a timely basis" should also form the basis for using the work.

While the JPS offers the Actuary the option to use the Auditor's work, the existence of the JPS does not override the statutory requirement for filing reports with the Annual Return that fulfil the required standard of care. The Actuary of a foreign company must be particularly mindful of this, given the later filing date of the foreign company Auditor's Report. The Actuary must ensure that the required reliability and sufficiency checks have been completed. The Actuary's professional responsibility cannot be deferred to work not yet completed by an Auditor. **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 in meeting the statutory requirements. It is expected that whenever such related blocks of business have a material impact on the company business, the Actuary will perform a more indepth review of the work performed by the relied-on-Actuary. That Actuary's name and qualifications should be provided together with a description of the work performed.

4.0 ASSUMPTIONS AND METHODS OF CALCULATION

4.1 General

Although the exact content of the report is left to the professional judgement of the author, certain principles and assumptions that have a significant effect on the calculation of the reserves should be clearly stated and appropriately justified. This will help minimize the correspondence necessary to obtain additional information.

The following comments are intended to provide guidance in preparing the report.

4.2 Discounting of Reserves

With respect to the policy liabilities discussed in the Actuary's Report, it should be noted that OSFI and FSCO currently do **not accept**, for purposes of the Annual Return, reserves that have been discounted to reflect the time value of money, except as noted below.

However, please note that discounting of actuarial liabilities will be required for all federally regulated companies starting January 1, 2003.

The valuation of policy liabilities relating to accident benefits coverages of the automobile insurance policy may incorporate the time value of money. In particular, the valuation of periodic payments may be based on disability annuity values reflecting mortality, rates of recovery and the time value of money.

For the claims liabilities, the Actuary is expected to distinguish between kinds of loss under the accident benefits coverage for reserving purposes, particularly medical payments-rehabilitation and disability income. If kind of loss data is not available to make the distinction, the Actuary's Report should explain why it is not available.

For those lines (or sub-lines) of business where the liability valuation incorporates the time value of money, the following additional information must be disclosed:

- the interest rate used for the valuation;
- the payment pattern (paid and incurred) or disability table; and
- disclosure of the provision for adverse deviation.

4.2.1 Additional Information

In order to provide valuable input to assess the impact of discounting, we request additional information, which will provide a basis to compare actuarial unpaid claim liabilities both on an undiscounted and discounted bases.

The Actuary should therefore complete the attached form and append it to the Actuary's Report.

The methods used to arrive at the discounted figures (either the present value or the present value plus the provisions for adverse deviations) should be in accordance with the standards of practices of the Canadian Institute of Actuaries (CIA).

Column 1: Insurance Class

The classes are those defined by the Actuary in his valuation of the unpaid claims and adjustment expenses.

Column 2: Unpaid Claims (case basis)

The undiscounted case reserve (excluding the internal expenses also referred to as unallocated adjustment expenses or ULAE) should be reported in this column.

Column 3: Incurred but not Reported Claims

The undiscounted IBNR calculated by the Actuary (excluding the internal expenses also referred to as unallocated adjustment expenses or ULAE) should be reported in this column.

Column 4: Total Unpaid Claims

The figures in this column should equal the sum of columns 2 and 3 except for the lines of business where the unpaid liabilities are carried on a discounted plus PFAD basis. The only Annual Statement lines of business where this could be the case are automobile accident benefits and accident & sickness. If the claims liabilities for these two lines are reported in the Annual Statement of the company on a discounted basis, then the discounted plus PFAD value should be reported in this column.

Columns 5, 6 and 7:

It is not required to complete these three columns.

Column 8: Present Value of (4)

The present value of column 4 should be reported in this column. Do NOT add any provision for adverse deviation at this time. For the lines of business where the unpaid claims are discounted using a table of actuarial values, this column should be equal to column (4).

Columns 9-10-11: Provisions for Adverse Deviations

The components of the provision for adverse deviations as defined by the Canadian Institute of Actuaries should be explicitly reported in those columns. In cases where the provision for interest rate was derived implicitly, the Actuary should perform the necessary calculations to derive the explicit provision or provide a reasonable estimate thereof.

Column 12: Actuarial Liabilities

This equals the sum of columns 8, 9, 10 and 11.

4.3 Separate Commentaries on the Claims Liabilities and Premium Liabilities.

Commentary in the Actuary's Report should deal separately with claims liabilities and premium liabilities. The level of detail required in each commentary must be as indicated in the next section.

4.3.1 Claims Liabilities

The commentary on the claims liabilities must contain details of:

the derivation of the net, direct and assumed reserve separately **disclosed in the opinion** for unpaid claims and adjustment expenses and other obligations that have been incurred by the company prior to the date of the return, including claims and obligations that arose before that date, but were not reported to the company on or before that date.

In determining these provisions, the author of the report should take into account, among other factors, at least the following:

- the ultimate loss ratio history of the company over the last few years;
- 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, including any adjustments for reinsurance premiums subject to swing rates (properly allocated to unearned premiums and unpaid claims liabilities);
- any significant lags in the reporting of claims and in the payment of claims;
- the existence of any significant deficiencies in the run-off of the reserves that had been set up in prior years;
- the existence of any significant amount(s) in respect of salvage and subrogation;
- frequency and severity of large losses; and
- provisions for participation in pools.

The Actuary must also comment on the adequacy of reserves, including IBNR, maintained for Self-Insurance Retention (SIR) plans. SIR represents the portion of a loss that is payable by the policyholder. In some cases, SIRs may be included in the policy declaration or in an endorsement to the policy, stipulating that the policy limit applies in excess of the SIR. When policy wordings are controlled by provincial legislation, the SIR arrangement is usually the subject of a separate agreement between the insurer and 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”.

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”.

4.3.2 Premium Liabilities

The commentary section of the report on the policy reserves must contain details concerning these items:

- (a) the derivation of the gross and net unearned premium liabilities **disclosed in the opinion**;
- (b) on the basis of the gross and net business separately, the derivation of the **provision disclosed in the opinion** for:
 - all ultimate claims and other obligations expected to arise after the date of the return under the policies in force at the date of the statement return;
 - all adjustment expenses (including unallocated loss adjustment expenses) expected to be associated with the ultimate claims and other obligations;
 - all expenses relating to the servicing of the policies in force; and
 - all reinsurance costs;
- (c) the existence of any premium deficiency on a net basis;
- (d) the maximum deferrable policy acquisition expenses. This item is the difference between the net unearned premiums and the net policy liabilities in connection with unearned premiums, plus the unearned commissions;
- (e) the other net liabilities:
 - an adjustment for excess of loss treaties where the premium rate varies with the claims experience;
 - an adjustment for proportional treaties where the ceding commission varies with the claims experience;
 - an adjustment relating to an inflation clause;

- an adjustment relating to an automatic reinstatement premium; and
 - any expected increase in profit commissions to agents;
- (f) the derivation of the gross deferred policy acquisition expenses and the unearned commissions.

In determining these provisions, the Actuary should take into account, among other factors, at least the following:

- the ultimate loss ratio history of the company over the last few years;
- any changes in premium rates;
- any significant trends in the severity and frequency of claims;
- any significant trends in the servicing costs of policies;
- any important changes in the coverage under the policies;
- any changes in the cost of reinsurance and/or in reinsurance arrangements; and
- any significant lags in the collection of premiums.

4.4 Reinsurance

Each report must:

- indicate the amounts that were assumed to be recoverable from reinsurers in giving the opinion stated in the report; and
- specify any unusual problems or delays known by the person signing the report that are expected to be encountered in the collection of the relevant amounts from the reinsurers.

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. The author should clearly indicate how any changed arrangements were taken into account.

It is not expected that the Actuary will necessarily assess the financial condition of each reinsurer. However, some of the problems or delays that should be specified, if relevant, would include situations in which:

- a reinsurance contract or cover note is not signed;
- a dispute has arisen with a reinsurer;
- the reinsurer has a history of not settling accounts promptly;
- the reinsurer's experience under the treaty is so minimal or other circumstances exist that cause there to be a high probability that the reinsurer will deny liability;
or
- the reinsurer is known to have been the subject of regulatory restrictions in its home jurisdiction.

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

The Actuary should disclose material amounts by type of reinsurance, i.e. affiliated, unaffiliated, registered, and unregistered reinsurers (as in P&C-1) judged to have an impact on the insurer's operations.

If the Actuary believes that unusual problems or delays in the collection of the relevant amounts from reinsurers are not known to exist, that belief should be clearly expressed.

5.0 Review Procedures

The Superintendent recognizes the confidential nature of the contents of the Actuary's Report.

Reviews of the filed annual returns may disclose that an Actuary's valuation warrants further assessment and questioning. The Superintendent may reject assumptions and methods where it appears that the policy liabilities produced are inappropriate.

The review of an Actuary's Report may take place over an extended period after filing, and the regulator 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 Actuary's Report should be available at all times at the company's head office in Canada, and should be made available to the regulator upon request.

This section does not apply to an Ontario incorporated company.

Should the questioning of particular assumptions or methods not sufficiently demonstrate the appropriateness of the policy liabilities produced, the Superintendent will require the Actuary to choose other acceptable assumptions or methods, and to re-compute the policy liabilities. In such a situation, the actuary will have to refile the Actuary's Report. The Superintendent may cause the company to amend the annual return. Alternatively, the Superintendent may ask the company to reflect the changes in the annual return for the following year. The Superintendent may request an Independent Actuary's report, if deemed necessary.

5.1 Peer Review Program

5.1.1 Peer review

The CIA's exposure draft Standard of Practice for peer review (June 2001) provides for mandatory peer review of work supporting opinions that are published after January 1, 2003. Early implementation will also likely be encouraged.

Meanwhile, OSFI is commissioning independent actuarial reviews (IAR) on a quasi-random basis. Thirty companies were subject to an IAR over the course of the last three years. The reviews are conducted by independent consulting actuaries and the cost is borne by the companies as per section 365.1 of the *Insurance Companies Act (ICA)*.

OSFI will continue this approach until the CIA Standard of Practice is in effect. When it is in effect, OSFI will consider what additional, if any, requirements are appropriate, based on the adopted Standard of Practice, to ensure that the reliance placed on the Appointed Actuary is warranted and satisfactory.

5.1.2 Independent Actuarial Reviews

To encourage voluntary independent peer review and not duplicate the work that is already performed independently, if any, OSFI will not commission an independent actuarial review for any company that has already mandated an Independent Actuary to review the Appointed Actuary's work.

The reviewer should be external to the reviewed company. An external reviewer that has performed work for the reviewed company is acceptable if the external reviewer has not been involved in the work subject to review. An actuary of the reviewed company's auditor is acceptable but the work that the Independent Actuary performs is to be a separate stand-alone engagement from the audit.

The Office should receive a copy of the IAR report no later than 30 days after its presentation to the company, and in any event, no later than June 30, 2002.

In the case of a review completed prior to the year-end valuation, that is the IAR report is published on a pre-release basis, then the IAR report should include evidence that the recommendations in the report have been appropriately considered by the Appointed Actuary in the current year end work.

In the case of an IAR report published on a post-release basis, then this report should include evidence that the recommendations in the report will be appropriately considered by the Appointed Actuary prior to the next year-end valuation.

The Appointed Actuary's Report should include a discussion of the treatment accorded to the suggestions, recommendations and material issues brought forward by the independent actuarial review.

5.1.3 Scope and opinion of the Independent Actuarial Review

This review should encompass the year-end valuation and the Appointed Actuary Report, in particular items subject to sections 365 (or section 629, if a foreign company), 457, and 458 of the *ICA*, and comprise of a formal report and opinion. As well, the review should include a discussion and opine on the latest report produced subsequent to section 368 (or section 630, if a foreign company) of the *ICA*.

The report should review the actuarial and other policy liabilities of the Company. This involves an independent review of the work of the Appointed Actuary including the Appointed Actuary's Report and any other relevant studies. Though it does not involve detailed validation of the calculations, it should provide:

- (i) an opinion on the appropriateness of the assumption and methods employed by the Appointed Actuary, and the consistency of the work with generally accepted actuarial practice;
- (ii) a commentary on any areas of differences of opinion with respect to methods employed or selection of assumptions, including analysis of sensitivity of results to specific changes; and
- (iii) an opinion that the actuarial and other policy liabilities are not, in aggregate, materially lower than the level produced by the Independent Actuary's selected methods and assumptions.

The review should encompass procedures and systems relied upon by the Appointed Actuary. This includes procedures and systems used:

- (i) to test and check calculations and the valuation results, and
- (ii) to reconcile them from year to year.

The opinion should be provided by a fellow of the Canadian Institute of Actuaries.

The opinion should state that the Independent Actuary is satisfied with the final report.

The Independent Actuary's report and opinion should be satisfactory to the Office.

**Appendix I
Expression of Opinion**

“I have valued the policy liabilities of (XYZ Company) for its balance sheet at December 31, 2001 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
Direct unpaid claims and adjustment expenses:		
Assumed unpaid claims and adjustment expenses:		
Gross unpaid claims and adjustment expenses:		
Ceded unpaid claims and adjustment expenses:		
Other amounts to recover:		
Other net liabilities:		
Net unpaid claims and adjustment expenses:		

Premium Liabilities	Carried in Annual Return	Actuary's Estimate
Gross policy liabilities in connection with unearned premiums:		
Net policy liabilities in connection with unearned premiums:		
Gross unearned premiums:		
Net unearned premiums:		
Premium deficiency:		
Other net liabilities:		
Deferred policy acquisition expenses:		
Maximum policy acquisition expenses deferrable:		
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

