Lines that include changes to the Instructions have been highlighted by shading; pages that include changes made in 2006 have "*2006*" in the lower left corner.

The following changes have been made for 2006:

Instructions

Page

IV-4 to 8	**Deleted** *“Records in Canada”* and *“Role of the Canadian Chief Agent”*; **added** *Refer to OSFI’s Guideline E-4A (revised November 2005).*
VI-17	**Deleted** “Canadian Bond Rating Service”, and footnote.
VIII-1	**Changed** Committee name to “CCIR Forms Committee”.
IX(a)-2	**Updated**

Annual Return

No changes.

Role of the Chief Agent and Record Keeping Requirements

Please refer to OSFI's Guideline E-4A (Revised November 2005).

Self-Insured Retention

Self-Insured Retention (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 statute, the SIR arrangement is usually the subject of a separate agreement between the insurer and the policyholder.

Where the insurer has to pay the entire claim to a third party (whether in accordance with the terms of the policy or the separate agreement), the amount of the SIR portion of the unpaid claim must be reported on Page 20.20, line 28 as "Other liabilities" with the equivalent amount recoverable reported as an "other recoverable" on Page 20.10, line 37. Any SIRs included in "Other liabilities" must be reported on Page 50.50, line 50.

To admit SIR recoverables for statutory test purposes, Regulators must be satisfied with the collectibility of the recoverables. Regulators may request collateral, acceptable to them, to ensure the collectibility of the recoverables. For purposes of the federal Branch Adequacy of Assets Test (Page 30.81, line 51), acceptable collateral will be required, and the collateral must be vested in trust with the Superintendent.

Appropriate reserves, including a reasonable IBNR provision, must be maintained with respect to SIR accounts. The adequacy of these reserves should be addressed in the insurer's actuarial report.

Structured Settlements

A structured settlement refers to a contractual arrangement whereby a third party makes periodic payments to a claimant of a P&C insurer (insurer).

The periodic payments are normally funded through purchase by the insurer of an annuity from a life insurance enterprise and are usually arranged so that the payments are tax free in the hands of the claimant.

The insurer may have to report a financial liability and a financial asset on its balance sheet, depending on the type of contractual arrangement, and must disclose the information required in its notes to the financial statements.

There are essentially three types of structured settlements:

Type 1

Type 1 structured settlements have the following characteristics:

a) An annuity is purchased by a insurer who is named as the owner. There is an irrevocable direction from the insurer to the annuity underwriter to make all payments directly to the claimant.

b) Since the annuity is non-commutable, non-assignable and non-transferable, the insurer is not entitled to any annuity payments and there are no rights under the contractual arrangement that would provide any current or future benefit to the insurer.

c) The insurer is released by the claimant to evidence settlement of the claim amount.

d) The insurer remains liable to make payments to the claimant in the event and to the extent the annuity underwriter fails to make payments under the terms and conditions of the annuity and the irrevocable direction given.

Under this type of structured settlement arrangement, the insurer does not have to recognize a liability to the claimant, nor does it have to recognize the annuity as a financial asset. However, the insurer is exposed to credit risk by guaranteeing the obligation of the annuity underwriter to the claimant.

Structured Settlements (cont'd)

According to the CICA Handbook, Section 3860, the insurer should disclose in its notes to the financial statements the terms and conditions, the credit risk and the fair value of this financial guarantee.

Any gain or loss should be recorded as an adjustment of incurred claims expense.

The insurer also should not recognize a financial asset at time of purchase where the terms of the annuity make it commutable in the event the liability to the claimant becomes fully settled or otherwise discharged. In these circumstances, a gain could subsequently arise to the extent there is a residual value after the liability is fully settled.

The existence of a contingent gain in this case should be assessed for disclosure in the notes. The disclosure should be based on Sections 3290 and 3860 of the CICA Handbook with respect to the amount, the nature, the terms and conditions of the contingent gain.

Type 2

Type 2 structured settlements differ from Type 1 in that:

a) The annuity is commutable or assignable or transferable; that is, there is some form of reversionary interest or continuing right to a benefit for the insurer.

b) A legal release is not necessarily obtained from the claimant.

The commutation rights of the insurer have the potential for terminating the claimant s right to future payments in advance of the annuity being exhausted.

The extent of the rights held by the insurer sometimes indicates the insurer has contracted with the annuity underwriter to provide only administrative services with respect to the periodic payments.

Under this type of arrangement, the financial liability must be recognized on the insurer's balance sheet, and the annuity must be recognized as a financial asset.

The annuity should be carried initially at its cost to the insurer and the liability should be measured in the same manner as other outstanding claim liabilities of similar type.

Structured Settlements (cont'd)

According to the CICA Handbook, Section 3860, the insurer should disclose in its notes to the financial statements the terms and conditions, the credit risk and the fair value of the annuities recognized as financial assets on the balance sheet.

Type 3

This type of structured settlement incorporates aspects of each of the above two types. These hybrid arrangements **must** be analyzed to determine whether they are in substance Type 1 or Type 2 and accounted for accordingly.

Insurers that enter into such arrangements should maintain adequate records to allow regulators to review the arrangements.

Please refer to Section V, *Jurisdictional Requirements*: Federal Guidelines and Bulletins.

<u>Page 30.81</u> - Lines 03 to 22 – Grading of Investments (cont'd)

Asset/Guarantor Ratings

Rating Agency	**Commercial Paper**	**Bonds & Debentures**	**Preferred Shares**
	(at least as high as)		
Moody's Investor Service	P-1	A	Aa
Dominion Bond Rating Service	R-1 (low)	A	Pfd-2
Standard and Poor's Corporation	A-	A	AA

3. Not-Investment Grade

Includes any item not included in the Government Grade or Investment Grade categories or where a credit rating is not available.

- Lines 03 to 12 – Investments: Term Deposits, Bonds and Debentures

Report Treasury Bills, Commercial Paper and other **term deposits, bonds and debentures** in these sections.

- Line 30 – Investment in Real Estate

See instructions for Page 40.70.

- Line 36 – Real Estate for Insurer's Own Use

See instructions for Page 40.70.

- Line 37 – Total Vested Assets

The total per column 02 must agree with the total per Page 20.10, line 89, column 02.

- Line 51 – Other (allowable) Recoverables on Unpaid Claims

Include Salvage & Subrogation and Self-Insured Retentions (SIRs), to the extent permitted, from Page 20.10, line 37, column 01 (excluding Marine).

SECTION VIII

Instructions

The set of Instructions issued in 1996 is a complete replacement of pages previously issued. Lines that include changes from the previous edition have been highlighted with a vertical bar in the left margin.

All readers are encouraged to completely review the 1996 edition.

The **Forms Committee** of the Canadian Council of Insurance Regulators is interested in your comments on any aspect of the Instructions. Please direct your comments to:

Office of the Superintendent of Financial Institutions
Regulatory Information Division
255 Albert Street, 13th floor
OTTAWA, K1A 0H2

Attention: Chairperson,
CCIR Forms Committee

Interim and Annual Returns

The Interim and Annual Returns also include some significant revisions for 1996; a revised edition of the Annual Return P&C-2 form was distributed to insurers in June 1996. A few minor corrections have been made to the June 1996 edition, and these are included in the ***sample*** Returns at the back of the Instructions (after Section X).

Regulators no longer issue "blank forms", since all insurers are expected to prepare and print Returns to conform with the standards established in the Instructions and illustrated in the *sample* Returns.

Insurers will be advised of any future changes to the Interim and Annual Returns by way of updates to the Instructions, together with copies of the applicable relacement pages for the *sample* Returns.

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