

SECTION III

Definitions have been included in these Instructions to assist insurers with the preparation of their filings.

This section is not a complete set of insurance and insurance accounting definitions or interpretations. It is related specifically to the preparation of the Annual Return.

Other definitions are contained in the Federal Insurance Companies Act and the various provincial and territorial Insurance Acts.

Another Canadian source of definitions of insurance and insurance accounting terms and concepts is:

Dictionary of Insurance, The Insurance Institute of Canada

However, definitions contained in this section take precedence, for the completion of the Annual Return, over any definition of the same terms contained in non-legislative sources.

In some cases, there may be jurisdictional differences in the interpretations of certain terms. If necessary, insurers should consult their primary Regulator for technical interpretations.

Affiliate

An enterprise is an affiliate of another enterprise if one is the subsidiary of the other or if both are subsidiaries of the same other enterprise or if each of them is controlled by the same person or enterprise. In addition, if one enterprise controls another, the two enterprises are affiliated. "Control" exists where one enterprise is able to exercise "significant influence" in accordance with GAAP over operating and financial decisions of another enterprise.

Acquisition Expenses

Policy acquisition expenses are those expenses incurred in the acquisition of new and renewal business. They include items such as commissions, premium taxes and an allocation of operating expenses.

Ancillary Operations

Any function which can be considered to be providing support or service to the insurance or investment operations, can be considered an ancillary operation.

Claims Ratio

With respect to any particular period, for any policies issued by an insurer for a particular class of insurance, the ratio of claims incurred, including adjustment expenses, during that period under those policies, to net premiums earned during that period for those policies, expressed as a percentage.

Claims Ratio - By Year of Accident

The claims ratio determined when claims and premiums used in the calculation are those which pertain to a specific accident year.

Claims Ratio - By Year of Account

The claims ratio determined when claims and premiums used in the calculation are those which pertain to a specific calendar year.

Contingent Commission

Any commission not exclusively attributable to premium volume is a contingent commission and would be considered non-deferrable. Refer to the Instructions for Page 80.10 for further details on commissions.

Control

Control exists where one enterprise is able to exercise significant influence over operating and financial decisions of another enterprise, in accordance with the meaning of the term under GAAP.

Counselling Fees

Fees paid for investment advice.

Deferred Commissions

The estimated amount of commission expense on direct and assumed premiums relating to the coverage period beyond the current year end. Deferred Commissions arising from direct and assumed business must not be reduced by Unearned Commissions arising from ceded business, and must be estimated by class of insurance.

Derivative Instruments

Refer to Instructions for Page 50.50, lines 91 and 95.

Expected Claims Ratio

With respect to the Calculation of Required Margin on Net Unearned Premiums, the claims ratio that the person who signs the declaration under the applicable legislation expects the insurer to experience under policies issued by it, for a particular class of insurance during the unexpired terms of such policies.

Experience Rating Refunds

A refund to the insured that is based upon a clause or agreement in an insurance contract that allows the insured to share in the favourable underwriting results of the contract. Also known as "retrospective rating" refund.

Financing Reinsurance

Where an agreement that is called a reinsurance agreement does not have as its primary purpose the transfer of insurance risk, such an agreement will be regarded as a financing or funding agreement and not as reinsurance and must be reported accordingly.

IBNR (Incurred But Not Reported)

The additional claim reserves established to cover claims, including related adjustment expenses, which have occurred but which have not been reported to the insurer before the date of valuation, and for additional reserves set-up to allow for an anticipated development in case reserves.

In Arrears (Receivables)

Generally, balances are in arrears when they have not been settled in accordance with the terms of the contract or the arrangements made between the parties.

Premiums receivable from agents or policyholders are in arrears as follows:

- i) Federal, Ontario and Quebec use 65 days as the cut-off, with November 1 used for ease of reference and calculation and, when permitted, September 1 for insurers with an October 31 year-end;
- ii) Alberta uses 3 months, with October 1 used for ease of reference.

Insurer

May include insurance companies, reinsurance companies, (farm) mutual insurance companies or societies, captive insurance companies, or reciprocals. In Quebec, certain professional corporations are also considered insurers.

Investment Grade

Refer to Instructions for Page 30.71.

Investment Real Estate

Investment in land and/or buildings other than for use in the insurance operations of the insurer.

Mid Terminal Reserves

An actuarially determined calculation of the policy reserves required to cover Accident and Sickness insurance policy benefits as at the end of the statement year.

Net Retention**- Insurers**

The maximum amount of **net** insurance coverage that the insurer retained in the reporting period on any one risk or exposure in the particular class of insurance, either by underwriting the risk for its own net account, or after the application of all reinsurance recoveries applicable to the risk.

- Reinsurers

The maximum amount of coverage that the reinsurer accepted in the reporting period on any one risk or exposure in the particular class of insurance, either on a given assumed treaty or on a group of treaties covering the same risk or exposure for the same ceding insurer, either by underwriting the risk for the reinsurer's net account, or after exhaustion of all retrocession recoveries applicable to the risk.

Policy Limit**- Insurers**

The maximum amount of insurance coverage that the insurer provided during the reporting period on any one risk in the particular class of insurance.

- Reinsurers

Not applicable.

Policy Dividends

Amounts paid to participating policyholders as determined by the insurer, and as prescribed by the insurance contract.

Premium Deficiency

A premium deficiency exists where the unearned premiums will not be sufficient to discharge all the expected liabilities that will accrue to the policies, including all expenses associated with the servicing of the policies.

Rating Refunds

Refer to the definition of **Experience Rating Refunds**

Registered Insurer

The terms "registered" and "unregistered" as defined below are relevant in determining whether credit can be taken for reinsurance placed by the insurer.

- Federally Incorporated Insurers

Registered insurers are insurance companies registered by the Office of the Superintendent of Financial Institutions and licensed by one or more provincial Regulators.

Unregistered insurers are insurance companies not registered by the Office of the Superintendent of Financial Institutions.

- Provincially Incorporated Insurers

Registered insurers in a particular jurisdiction are insurers that are licensed in that jurisdiction. Certain Regulators will also accept (re)insurers not licensed in their jurisdiction, but incorporated and licensed in another jurisdiction, as registered. Verify for your jurisdiction.

Unregistered insurers are insurers not licensed by one or more provincial Regulators, and not federally registered.

Regulator

The federal, provincial or territorial government agency responsible for the control and regulation of the insurance industry under its jurisdiction. The "Primary Regulator" is the Regulator in the jurisdiction under which the insurer: (a) obtained its order to carry on business; or (b) was incorporated.

Retrospective Rating Credits

Refer to the definition of **Experience Rating Refunds**

Salvage and Subrogation Recoverable

Salvage is the residual value that belongs to the insurer as a result of paying an insured's claim for the property covered by a policy issued by the insurer.

Subrogation is the assumption by an insurer of an insured's legal right to collect damages.

Selected Claims Ratio

With respect to the Calculation of Required Margin on Net Unearned Premiums, the claims ratio that the actuary selects as the ratio expected to be experienced under policies issued by the insurer for a particular class of insurance during the unexpired terms of such policies. The selected claims ratio must not be less than the expected claims ratio or except with the approval of the Regulator, the claims ratio selected shall not be less than the claims ratio experienced under the policies with respect to the most recent year.

Structured Settlements

Refer to *Section IV, "Special Topics"*

Subsidiary

A subsidiary is any enterprise of which the insurer owns directly, or indirectly through other subsidiaries, more than 50% of the voting rights and for which it has the right to elect a majority of the members of the board of directors.

Substantial Investment

For federally registered insurers, Section 10 of the Insurance Companies Act (ICA) defines a substantial investment as meaning:

- "the voting rights attached to the aggregate of any voting shares [owned] exceed 10 per cent of the voting rights attached to all of the outstanding voting shares";

or

- "the aggregate of any shares" which are owned "represents ownership of greater than 25 per cent of the shareholders' equity".

Subsection 495(4) of the ICA provides that a property and casualty insurance company wanting to acquire or increase a substantial investment in a financial institution must control the financial institution (that is, must have more than 50% of the votes to elect directors), except as permitted under subsection 495(5).

Unearned Commissions

The estimated amount of commission revenue on ceded premiums relating to the coverage period beyond the current year end. Unearned Commissions arising from ceded business must not be reduced by Deferred Commissions arising from direct and assumed business, and must be estimated by class of insurance.

Unrecognized (Assets and Liabilities)

Assets and Liabilities that are not “recognized” as financial instruments under GAAP, and are “off-balance sheet”.

Unregistered Insurer (Company)

Refer to the definition of **Registered Insurer**