Guideline

Subject: **Annual Disclosures** (Life Insurance Enterprises)

Category: **Accounting**

No: **D-1A** **Date:** **December 1997**
Revised: **July 2010**

Introduction

This guideline outlines disclosures OSFI expects federally regulated life insurance enterprises[1] to provide to supplement the disclosures required by *International Financial Reporting Standards (IFRSs)*.

OSFI expects all life insurance enterprises to include required IFRSs disclosures and disclosures of this Guideline in their OSFI annual return or supplementary management report appended to the annual return. These same disclosures are also expected to appear in any separate annual statement of life insurance enterprises that prepare both an annual statement and an annual return.

The disclosures required by this guideline, as well as IFRSs requirements, should be kept on file at the Canadian head office or the chief agency of the life insurance enterprise. In addition, until such time as a regulation pursuant to Subsection 673.1 (1)(b) is issued requiring all federally regulated life insurance enterprises to make their financial reports and associated disclosures available to the public on request, enterprises are strongly encouraged to adopt this practice. The enterprises and their respective financial reports and disclosures include:

- federally regulated life insurance enterprises, other than branches – their audited annual financial statements and the disclosures expected by this guideline; and
- branches of foreign life insurance enterprises - the audited portion of their OSFI annual return and the disclosures expected by this guideline.

The disclosures that are required by IFRSs must be presented in the audited financial statements or annual return.

[1] The term “enterprise” includes domestically incorporated life insurance companies, Canadian branches of foreign life insurance companies and insurance holding companies.

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Part 1 - Quantitative Disclosure

Part 1 of the guideline sets out minimum levels of quantitative disclosure for certain financial statement items. Disclosures by category or type need not be met where the amounts are not material. The quantitative disclosures should be made in the notes to the annual financial statements (if prepared) or in the audited portion of the annual return in cases where annual financial statements are not prepared.

Portfolio Investments

In disclosing the information required by IFRSs, a life insurance enterprise should disclose the aggregate statement of financial position value and the fair value of its portfolio investments showing separately any amounts relating to:

(a) bonds and debentures,

(b) residential mortgage loans,

(c) non-residential mortgage loans,

(d) common,

(e) preferred shares,

(f) real estate, and

(g) other investments.

Separate disclosure is recommended, within the above categories, for any type of portfolio investment that constitutes 10% or more of the carrying value of the total portfolio investments.

In disclosing the information required by IFRSs, the life insurance enterprise is expected to disclose separately, where applicable, the income, expense and gains and losses resulting from each investment category.

Part 2 - Risk Management and Control Practices

Part 2 outlines the disclosures OSFI expects regarding the risk management and control practices adopted by a life insurance enterprise. OSFI expects the enterprise to provide the following qualitative disclosures, if not already included in the financial statement notes, in a supplementary management report appended to the annual financial statements or in a supplementary management report appended to the audited portion of the annual return in cases where annual financial statements are not prepared.

Each life insurance enterprise should identify and describe the risks that are significant to its business. These include, but are not limited to, interest rate risk, credit risk, reinsurance risk, foreign exchange rate risk, liquidity risk, and the other major risks that are inherent in managing a life insurance enterprise. The enterprise should describe the way in which it monitors and controls such risks. It should also set out the responsibilities of the board of directors and senior management for risk management, including policy setting, implementation, monitoring and review.

The enterprise should discuss the extent of any significant exposures to areas where there recently has been, or there is the potential for, significant loss due to industry specific factors or general industry recession and outline the steps it has taken to contain risks in these areas.

The enterprise should also discuss methods of measuring and controlling other market-related risks where they are significant.

Risks Associated with Policy Liabilities

Since policy liabilities generally constitute the largest single balance of a life insurance enterprise's statement of financial position, OSFI expects specific disclosure relating to the management of the risks that significantly impact it in addition to the risks referred to in the following paragraphs. These risks include mortality/morbidity risk, business retention risk, investment yield risk and expense risk.

The enterprise should discuss its risk management policies for each of these risks, including the role of the board and management in their development, review, approval and implementation, and the procedures in place to effectively monitor and control them.

The enterprise should identify and describe the techniques used to analyze and review mortality experience risk, the claims management processes to mitigate morbidity risks, the underwriting practices to ensure appropriate risk classification and premium levels for each customer, pricing and dividend policies, the controls placed on the growth of expenses and the management of investment yields.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. An enterprise should set out its objectives and associated business strategy in interest rate risk management.

The enterprise should discuss its interest rate risk management policies, including the role of the board and management in the development, review, approval and implementation of interest rate risk policies, and the procedures in place to effectively monitor and control the interest rate risk. The discussion should include information on the policies that exist for measuring the enterprise's interest rate risk exposure, including the frequency of measurement.

Consistent with the requirements of IFRSs, the enterprise should explain how it uses derivative instruments to manage interest rate risk and provide quantitative information on the extent to which these instruments are used.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. This risk can relate to recognized and unrecognized financial assets.

The enterprise should discuss its credit risk management policies, including the role of the board and management in the development, review, approval and implementation of credit risk management policies, and the procedures in place to effectively monitor and control the credit function. The discussion of the credit risk management policies should include information on the methods used by the enterprise to identify existing and potential risks inherent in the portfolio and the policies that exist for monitoring and controlling these risks. The enterprise should include a description of its risk measurement and rating classification systems.

Reinsurance Risk

Reinsurance risk is the risk that a ceding enterprise could suffer a loss or liability in the event a reinsurer is unable to meet its obligations to pay claims reinsured under the terms of a reinsurance contract with the ceding enterprise.

The enterprise should discuss its reinsurance risk management policies, including the role of the board and management in the development, review, approval and implementation of reinsurance risk policies, and the procedures in place to effectively monitor and control the reinsurance risk. The discussion should include information on the policies that exist for measuring the enterprise's reinsurance risk exposure.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The enterprise should discuss its currency risk management policies, including the role of the board and management in the development, review, approval and implementation of currency risk management policies, and the procedures in place to effectively monitor and control the foreign exchange risk function.

The enterprise should identify and describe the analytical techniques used to measure currency risk, the limits it imposes and the frequency of measurement. The enterprise should also set out the key sources of currency risk within its portfolio. It should also provide information on how it measures foreign exchange gains and losses.

Consistent with the requirements of IFRSs, the enterprise should explain how it uses derivative instruments to manage currency risk and provide quantitative information on the extent to which these instruments are used.

Liquidity Risk[2]

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The enterprise should discuss its liquidity risk management policies, including the role of the board and management in the development, review, approval and implementation of liquidity risk management policies, and the procedures in place to effectively monitor and control the function. It should describe the methods used for measuring the enterprise's current and projected future liquidity.

The enterprise should include a description of its policies and performance with respect to:

- controlling the mismatch between recognized and unrecognized financial assets and liabilities; and
- ensuring it has sufficient liquid assets on hand in relation to its daily cash inflows and outflows.

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[2] This section on liquidity risk should be used in conjunction with Guideline B-6 on Liquidity.