

Actuarial Standards Board
Conseil des normes actuarielles

Standards of Practice

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1000—General

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1100 Introduction

1110 Definitions

- .01 Each term set over dotted underlining has the meaning given in this section and has its ordinary meaning otherwise (e.g., external user).
- .02 Accepted actuarial practice is the manner of performing work in Canada in accordance with the Rules and these Standards of Practice. Standards of Practice are the responsibility of the Actuarial Standards Board and approval of standards and changes to standards is made through a process that involves consultation with the actuarial profession and other interested parties. Unless the context requires otherwise, references to accepted actuarial practice refer to accepted actuarial practice for work in Canada. [*pratique actuarielle reconnue*]
- .03 Actuarial cost method is a method to allocate the present value of a plan's obligations to time periods, usually in the form of a service cost and an accrued liability. [*méthode d'évaluation actuarielle*]
- .03.1 Actuarial evidence work is work where the actuary provides an expert opinion with respect to any area of actuarial practice in the context of an actual or anticipated dispute resolution proceeding, where such expert opinion is expected or required to be independent. A dispute resolution proceeding may be a court or court-related process, a tribunal, a mediation, an arbitration, or a similar proceeding. Actuarial evidence work may include the determination of capitalized values in respect of an individual, or the provision of an expert opinion with respect to a dispute involving an actuarial practice area, such as pensions or insurance, or questions of professional negligence. [*travail d'expertise devant les tribunaux*]
- .04 Actuarial present value method is a method to calculate the lump sum equivalent at a specified date of amounts payable or receivable at other dates as the aggregate of the present values of each of those amounts at the specified date, and taking into account both the time value of money and contingent events. [*méthode de la valeur actuarielle*]
- .04.1 Actuary, as it is used in these standards, means anyone bound by these standards for work in Canada. [*actuaire*]
- .05 Anti-selection is the tendency of one party in a relationship to exercise options to the detriment of another party when it is to the first party's advantage to do so. [*antisélection*]
- .06 Appointed actuary of an entity is an actuary formally appointed, pursuant to legislation, by the entity to monitor the financial condition of that entity. [*actuaire désigné*]

- .07 Appropriate engagement is one that does not impair the actuary's ability to conform to the rules. [*mandat approprié*]
- .08 Benefits liabilities are the liabilities of a plan in respect of claims incurred on or before a calculation date. [*obligations liées aux prestations*]
- .09 Best estimate means without bias, neither conservative nor unconservative. [*meilleure estimation*]
- .09.1 Bylaws means the bylaws of the Canadian Institute of Actuaries, as amended from time to time. [*Statuts administratifs*]
- .10 Calculation date is the effective date of a calculation; e.g., the balance sheet date in the case of a valuation for financial statements. It usually differs from the report date. [*date de calcul*]
- .11 Case estimate at a calculation date is the unpaid amount of one of, or a group of, an insurer's reported claims (perhaps including the amount of claim adjustment expenses), as estimated by a claims professional according to the information available at that date. [*évaluation du dossier*]
- .12 Claim adjustment expenses are internal and external expenses in connection with settlement of claims. [*frais de règlement des sinistres*]
- .13 Claim liabilities are the portion of insurance contract liabilities in respect of claims incurred on or before the balance sheet date. [*passif des sinistres*]
- .14 Contingent event is an event which may or may not happen, or which may happen in more than one way or which may happen at different times. [*éventualité*]
- .15 Contribution is a contribution by a participating employer or a plan member to fund a benefits plan. [*cotisation*]
- .15.01 Contribution principle is a principle of policyholder dividend determination whereby the amount deemed to be available for distribution to policyholders by the directors of a company is divided among policies in the same proportion as policies are considered to have contributed to that amount. [*principe de contribution*]
- .15.1 Credibility is a measure of the predictive value attached to an estimate based on a particular body of data. [*crédibilité*]
- .15.2 Credit spread, for a fixed income asset, is the yield to maturity on that asset minus the yield to maturity on a risk-free fixed income asset with the same cash flow characteristics. [*écart de crédit*]
- .16 Definitive means permanent and final. [*décision définitive*]
- .17 Development of data with respect to a given coverage period is the change in the value of those data from one calculation date to a later date. [*matérialisation*]

- .18 Domain of actuarial practice is the measurement of the current financial implications of future contingent events. [*domaine de la pratique actuarielle*]
- .19 Early implementation means the implementation of new standards before their effective date. [*mise en œuvre anticipée*]
- .20 Earnings-related benefit is a benefit whose amount depends on the recipient's earnings. [*régime salaire de carrière*]
- .21 External user is a user who is not an internal user. [*utilisateur externe*]
- .22 External user report is a report whose users include an external user. [*rapport destiné à un utilisateur externe*]
- .23 Financial condition of an entity at a date is its prospective ability at that date to meet its future obligations, especially obligations to policy owners, members, and those to whom it owes benefits. Financial condition is sometimes called "future financial condition". [*santé financière*]
- .24 Financial position of an entity at a date is its financial state as reflected by the amount, nature, and composition of its assets, liabilities, and equity at that date. [*situation financière*]
- .25 To fund a plan is to dedicate assets to its future benefits and expenses. Similarly for "funded" and "funding". [*provisionner*]
- .25.1 Funded status is the difference between the value of assets and the actuarial present value of benefits allocated to periods up to the calculation date by the actuarial cost method, based on a valuation of a pension plan or post-employment benefit plan. [*niveau de provisionnement*]
- .26 Going concern valuation is a valuation which assumes that the entity to which the valuation applies continues indefinitely beyond the calculation date. [*évaluation en continuité*]
- .27 Indexed benefit is a benefit whose amount depends on the movement of an index like the Consumer Price Index. [*prestation indexée*]
- .27.01 Indicated rate is the best estimate of the premium required to provide for the corresponding expected claims costs, expenses, and provision for profit. [*taux indiqué*]

- .05 Use of an assumption stipulated by the terms of the engagement is use of the work of another person.
- .06 If the stipulated assumption is appropriate but near the end of the accepted range, then it may be useful, if appropriate under the terms of the engagement, to report the result of an alternative assumption near the other end of the accepted range, especially in an external user report. The same is true for a stipulated assumption that, for example, the federal Income Tax Act continues as is when an amendment to it is virtually definitive.
- .07 In assessing the utility of reporting the result of an alternative to an assumption for which the actuary does not take responsibility, the actuary would consider the dependence of external users on his or her work. For example,
- utility in actuarial evidence work would be assessed in the context of the adversarial system in tort litigation, which expects each side to develop its own case without help from the other side, or to identify and expose any flaws in the other side's case; therefore, it is consistent with that system for the actuary engaged by one side not to report the result of an alternative assumption if the lawyer for the other side is able to compel the actuary (or engage his or her own actuary) to calculate the result of a desired alternative, and
- if members of a pension plan receive a copy of the actuary's report that uses an assumption for which the actuary did not take responsibility, and if the members are identified as users in the report, the reporting of the results of using an alternative assumption may be useful to those members.

1730 Appropriate assumptions

- .01 The appropriate model or data assumption for a matter should be the best estimate assumption of that matter, modified, if appropriate, to make provision for adverse deviations, and taking account of
- the circumstances of the case, past experience data, the relationship of past to expected future experience, anti-selection, the relationship among matters, and
- in the case of assumptions on economic matters for calculation of liabilities in a balance sheet, the assets which support those liabilities at the calculation date and the expected policy for asset-liability management after that date, except where the circumstances of the valuation require otherwise.

2500 Dynamic Capital Adequacy Testing

2510 Scope

- .00 Part 1000 applies to work within the scope of this section 2500.
- .01 This section 2500 applies to the appointed actuary of an insurer when preparing a report on the insurer's financial condition pursuant to law.

2520 Investigation

- .01 The appointed actuary should make an investigation at least once during each financial year of the insurer's recent and current financial position, and financial condition, as revealed by dynamic capital adequacy testing for selected scenarios.
- .02 The appointed actuary should make a report of each investigation in writing to the insurer's board of directors (or to their audit committee if they so delegate) or its chief agent for Canada. The report should identify possible actions for dealing with any threats to satisfactory financial condition that the investigation reveals.
- .03 The appointed actuary should also make an interim investigation if there is a material adverse change in the insurer's circumstances.
- .04 The appointed actuary should ensure that the investigation is current. The investigation should take into consideration recent events and recent financial operating results of the insurer.
[Effective December 31, 2011]

- .05 The actuary's investigations would be done with a frequency sufficient to support timely corrective actions by management and the board of directors or chief agent for Canada.

Recent and current financial position

- .06 The investigation would review operations of recent years (normally at least three years) and the financial position at the end of each of those years.

Dynamic capital adequacy testing

- .07 Dynamic capital adequacy testing examines the effect of selected plausible adverse scenarios on the insurer's forecasted capital adequacy. It would be one of the actuary's primary tools for investigation of an insurer's financial condition.

2600 Ratemaking: Property and casualty insurance

2610 Scope

- .00 Part 1000 applies to work within the scope of this section 2500.
- .01 This section 2600 applies to the derivation of indicated rates for an insurance contract of property and casualty insurance written by an insurer, a reciprocal insurance exchange or an underwriting syndicate.
- .02 This section 2600 does not apply to the derivation of indicated rates for public personal injury compensation plans covered by the Practice-Specific Standards for Public Personal Injury Compensation Plans.
- .03 This section 2600 applies to the derivation of indicated rates for any entity, such as a residual market mechanism or an advisory organization, which derives indicated rates for an insurance contract to be written by an insurer, regardless of whether or not that entity is itself an insurer.
- .04 This section 2600 applies to the derivation of indicated rates, but not to the recommendation or selection of rates to be charged. The recommended or selected rates may reflect considerations beyond those set forth in this section 2600.
- .05 This section 2600 also applies to the derivation of indicated rates for insurance risks accepted by a property and casualty quasi-insurer, similar to insurance risks accepted under an insurance contract. In this section 2600, "property and casualty quasi-insurer" means an entity that assumes insurance risks that a property and casualty insurer may assume, without having the legal form of an insurer. Examples of property and casualty quasi-insurers include
 - federal or provincial crown corporations or agencies acting in a capacity similar to a property and casualty insurer,
 - providers of extended warranties, and
 - self-funding mechanisms, such as those created by members of a professional association, or entities that retain some or all of their property and casualty insurance risk.