

The Actuaries' role in safeguarding the solvency of P&C insurers

Prepared by

Rachel Dutil, FCIA, FCAS

Katerina Kruchinkina, ACAS, ACIA

March 2015



cutting through complexity

Insurance Industry Practice
Property & Casualty Actuarial Services

Bay Adelaide Centre
333 Bay Street
Suite 4600
Toronto, ON
M5H 2B5

Research Project for the
**Property and Casualty Insurance
Compensation Corporation**

Research Paper on the Actuaries' Role in Safeguarding the Solvency of P&C Insurers

Final Release: March 12, 2015

Prepared by:

Rachel Dutil, FCAS, FCIA

Katerina Kruchinkina, ACAS, ACIA



KPMG LLP
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5
Canada

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

Mr. Grant Kelly
Chief Economist
Property and Casualty Insurance Compensation Corporation
20 Richmond Street East, Suite 210
Toronto, Ontario M5R 2R9

March 12, 2015

RE: Research Paper on the Actuaries' Role in Safeguarding the Solvency of P&C Insurers

Dear Mr. Kelly,

Please find attached our research paper on the actuaries' role in safeguarding the solvency of P&C insurers that we prepared for the Property and Casualty Insurance Compensation Corporation.

It was a pleasure working with you and we look forward to opportunities to work with you again in the future.

Yours very truly,

Pierre LePage, FCIA, FCAS
Partner and Business Leader
Property and Casualty Actuarial Services
Insurance Industry Practice
514-840-2289
plepage@kpmg.ca

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International", a Swiss entity). KPMG Canada provides services to KPMG LLP.

KPMG Confidential

TABLE OF CONTENTS

Part 1 - Executive Summary	1
Part 2 - Introduction	8
Part 3 - Scope	11
Part 4 - Research Approach	12
Part 5 - Definition of the Term “Actuary” in Insurance Legislation	14
Part 6 - International Monetary Fund’s Financial Sector Assessment of Canada	19
Part 7 - Powers of Provincial Superintendents with Regards to Reserving and Solvency Monitoring Relative to International Sound Practices	43
Part 8 - Review of Regulatory and Legislative Requirements to Assess Solvency under the IAIS common Framework	95
Appendix A – Reference Sources	97
Appendix B – Sample Questionnaire	100
Appendix C – OSFI 2014 Memorandum for the Appointed Actuary’s Report on Property and Casualty Insurance Business	101

PART 1 - EXECUTIVE SUMMARY

Purpose of Research Paper

The Property and Casualty Insurance Compensation Corporation's (PACICC) main responsibility is to protect eligible policyholders from undue financial loss in the case of insurer's insolvency. Based on historical data, PACICC has identified inadequate pricing and deficient reserves as the leading causes of insolvency for P&C insurers in Canada. As actuaries play a key role in both of these functions, PACICC engaged KPMG LLP (KPMG) to produce a research paper on the actuaries' role in safeguarding the solvency of property and casualty (P&C) insurers, with a focus on regulatory requirements throughout Canada, and more specifically at the provincial level.

The purpose of this research paper is to:

- Review the definition of the term “actuary” used in relevant federal and provincial legislation and regulations (Insurance Legislation);
- Review the International Monetary Fund (IMF) Assessment Report for Canada to identify sound practices related to the actuaries' role in reserving and solvency monitoring;
- Contrast the powers of provincial superintendents with regards to reserving and the actuary's role in solvency monitoring relative to international sound practices; and
- Review regulatory and legislative requirements to assess solvency under the International Association of Insurance Supervisors' (IAIS) common Framework (ComFrame).

This research paper does not recommend specific legal wording that could be used to modify sections of the relevant federal and provincial Insurance Legislation to be in line with the international sound practices identified by the IAIS. However, it is understood that PACICC may use the findings from the research paper to comment on possible enhancements that each of the Canadian insurance regulators, both at the provincial and federal levels, could consider in modifying specific sections of their Insurance Legislation.

Organization of the Research Paper

This research paper is organized in the following eight parts:

1. Executive Summary;
2. Introduction;
3. Scope;
4. Research Approach;
5. Definition of the Term “Actuary” in Insurance Legislation;
6. International Monetary Fund Financial Sector Assessment of Canada;
7. Powers of Provincial Superintendents with Regards to Reserving and Solvency Monitoring Relative to International Sound Practices; and

8. Review of Regulatory and Legislative Requirements to Assess Solvency under the IAIS common Framework.

Limitation on Scope

PACICC's requested scope for this research assignment is narrow. The scope of this research paper is limited to a discussion of only those sections of the Insurance Companies Act of Canada (ICA) and the Insurance Legislation for each province that relate to the actuaries' role in safeguarding the solvency of P&C insurers. The specific types of P&C insurers covered under this research paper are described in Part 3 - Scope of the research paper.

Research Approach

The methodology used to conduct this research assignment incorporated the following three approaches:

- Literature review;
- Questionnaires; and
- Personal interviews with relevant stakeholders.

Through internet research as well as through discussions with PACICC, relevant reports, articles, and consultation papers, as well as relevant provincial and federal Insurance Legislation, regulations, and guidelines were identified. A complete list of all reference resources is included in Appendix A of this research paper.

The research paper reports on the results of the interviews and literature research. However, the information included in this research paper is limited to the elements that are relevant to the specific scope requested by PACICC (i.e., the benchmarking against international sound practices, as described in the Insurance Core Principles (ICPs) put together by the IAIS, of those sections of the federal and provincial Insurance Legislation that relate to actuaries and their role in safeguarding the solvency of P&C insurers).

Findings

The two tables below compare the powers and requirements set in the various applicable Canadian Insurance Legislations related to the role of the actuaries involved in solvency monitoring and valuation work for P&C insurers in Canada. The tables address the question of whether each of the Insurance Legislations currently include the following:

- A definition for a P&C actuary;
- A provision requiring annual actuarial reports (Appointed Actuary's Report (AAR) and Dynamic Capital Adequacy Testing (DCAT) Report);
- A provision requiring the actuary to follow certain practices and/or standards (i.e. basis of actuarial valuation);
- A provision requiring the actuary to report annually to the audit committee or the board; and
- A provision allowing the actuary to access to all relevant information.

Jurisdiction	Definition of P&C Actuary	Requirement for Annual Actuarial Reports	Basis of Actuarial Valuation
Canada (Federal Regulator)	Fellow of the Canadian Institute of Actuaries (FCIA)	Yes – Section 367 of the <i>ICA</i>	Generally accepted actuarial practice; Superintendent can give additional directions or make changes – Section 365(2) of the <i>ICA</i>
Alberta	Ordinarily resident in Canada <i>and</i> an FCIA in good standing or be approved by the Minister as having the training and experience that are relevant to the duties of an actuary of a provincial company	Yes – Section 407 of the <i>Insurance Act</i>	If FCIA – generally accepted actuarial practice with any modification established by the Minister – Section 405(2) of the <i>Insurance Act</i> ; otherwise not indicated
British Columbia	<i>Financial Institutions Act (FIA)</i> : FCIA in good standing or be approved by the Financial Institutions Commission of British Columbia (FICOM) as having the training and experience necessary to perform the duties of an actuary of a provincial company	Yes – Section 126.26 of the <i>FIA</i>	Generally accepted actuarial practice; FICOM can give additional directions or make changes – Section 126.23(2) of the <i>FIA</i>
Manitoba	FCIA	No	None specified
New Brunswick	No definition	No	None specified
Newfoundland	No definition	No	None specified
Northwest Territories	FCIA	No	None specified
Nova Scotia	No definition	No	None specified
Nunavut	FCIA	No	None specified
Ontario	FCIA	Yes – Section 121.16 of the <i>Insurance Act</i>	Generally accepted actuarial practice; Superintendent can give additional directions or make changes – Section 121.13(2) of the <i>Insurance Act</i>
Prince Edward Island	No definition	No	None specified
Quebec	FCIA	Yes – Section 298.13 and 298.14 of the <i>Insurance Act</i>	Generally accepted actuarial practice; The actuary shall, however, take into account any changes made by the Autorité des Marchés Financiers (AMF) in respect of the insurer – Section 298.16 of the <i>Insurance Act</i>
Saskatchewan	FCIA	Only if required by the Superintendent – Section 85(5)(c) of the <i>Insurance Act</i>	Generally accepted actuarial practice described in the Standards of Practice of the Canadian Institute of Actuaries (CIA) – Section 86.2(1)(c) of the <i>Insurance Act</i>
Yukon	FCIA	No	None specified

Jurisdiction	Annual Reporting to Audit Committee / Board	Access to Information
Canada (Federal Regulator)	Yes – Section 368 of the <i>ICA</i>	Yes – Section 366(1) of the <i>ICA</i>
Alberta	Yes – Section 408 of the <i>Insurance Act</i>	Yes – Section 404(1) of the <i>Insurance Act</i>
British Columbia	Yes – Section 126.27 of the <i>FIA</i>	Yes – Section 126.22 of the <i>FIA</i>
Manitoba	Section 41.20(1)(g) of the <i>Insurance Act</i> – frequency of reporting not specified	Not specified
New Brunswick	Not specified	Not specified
Newfoundland	Not specified	Not specified
Northwest Territories	Not specified	Not specified
Nova Scotia	Not specified	Not specified
Nunavut	Not specified	Not specified
Ontario	Yes – Section 121.17 of the <i>Insurance Act</i>	Yes – Section 121.15 of the <i>Insurance Act</i>
Prince Edward Island	Not specified	Not specified
Quebec	Yes – Section 298.13 of the <i>Insurance Act</i>	Yes – Section 298.9 of the <i>Insurance Act</i>
Saskatchewan	Not specified	Not specified
Yukon	Not specified	Not specified

The requirements for P&C actuaries involved in a solvency reporting or monitoring function are set out in the relevant federal or provincial Insurance Legislation (e.g., *ICA* (Canada), *Alberta Insurance Act*, *Financial Institutions Act* (British Columbia), *An Act Respecting Insurance* (Quebec)). To articulate the insurance supervisor’s regulatory and supervisory expectations, in addition to what is set out in Insurance Legislation, some of the solvency regulators issue their own specific additional guidance or adopt the relevant federal guidelines. Other jurisdictions rely solely on incorporating the requirements directly into the relevant Insurance Legislation.

PACICC requested KPMG to review all provincial Insurance Legislation and benchmarks them against those ICPs that are directly or indirectly relevant to the actuaries’ role in the context of solvency framework. The description of each ICP, including the related standard issued by the IAIS, is provided in Part 6 of this research paper. Consistent with the scope of this research paper, only those requirements related to the actuaries are addressed for each of the relevant ICP.

The following is a list of possible enhancements on which PACICC could consider commenting in relation to each of the ICPs identified as relevant to this research paper. The possible enhancements listed here were all found to be applicable to more than one province. A table summarizing the applicability for each province follows the list.

ICP 1

- a) Incorporating the definition of the authority responsible for insurance supervision in the province into the Insurance Legislation.
- b) Incorporating a more explicit reference in the Insurance Legislation regarding the objectives of insurance supervision as they relate to promotion of a fair, safe and stable insurance sector for the benefit and protection of policyholders, as stated in the international best practices.
- c) Establishing explicit provisions in the Insurance Legislation giving the power to the supervisory authority to issue legally enforceable guidelines and rules, and to issue penalties for non-compliance.

ICP 5

- a) Incorporating the following requirements within the definition of the term “actuary” in the Insurance Legislation:
 - i. A Fellow of the Canadian Institute of Actuaries (FCIA) in good standing;
 - ii. Meeting any additional qualification requirements defined by the Canadian Institute of Actuaries (CIA); and
 - iii. Meeting any additional qualification requirements defined by the provincial authority responsible for insurance supervision.
- b) Including a section within the Insurance Legislation describing the roles of actuaries working with Provincial P&C Insurers¹.

ICP 8

- a) Including a section within the Insurance Legislation specifically describing the actuary’s qualification requirements, rules of appointment and revocation, as well as the actuary’s responsibilities and reporting requirements.

ICP 14

- a) Including requirements for actuarial valuation for Provincial P&C Insurers.
- b) Official adoption of the Office of the Superintendent of Financial Institutions’ (OSFI) *Guideline E-15: Appointed Actuary: Legal Requirements, Qualification and External Review*² or issuance of a similar guideline.

¹ In this research paper, Provincial P&C Insurers are defined as P&C insurers incorporated in a specific province. See Part 2 – Introduction for further details.

² The reader is referred to Part 6 of this research paper for more information about this guideline.

- c) Recognizing that the jurisdiction already meets the expectations with respect to ICP 14 through means other than external peer review, considering implementing regular external peer review for the additional benefits that may be gained from the process.

ICP 16

- a) Official adoption of OSFI's *Guideline E-18: Stress Testing* or issuance of a similar guideline.
- b) Official adoption of OSFI's *Guideline E-19: Own Risk and Solvency Assessment (ORSA)* or issuance of a similar guideline.
- c) Official adoption of OSFI's *Guideline A-4: Regulatory Capital and Internal Capital Targets* or issuance of a similar guideline.
- d) Official adoption of the OSFI's *Corporate Governance Guideline* or issuance of a similar guideline.

The table below summarizes possible enhancements listed above by province/territory. An "x" indicates that the possible enhancement would be applicable to the province/territory.

Possible Enhancement	BC	QC	AB ³	MB	NB	NL	NS	NU	NWT	ON	PEI	SK	YU
1a.			x			x							
1b.	x		x	x	x	x	x	x	x		x	x	x
1c.	x	x	x	x	x	x	x	x	x	x	x	x	x
5a.	x	x	x	x	x	x	x	x	x	x	x	x	x
5b.				x	x	x	x	x	x		x	x	x
8a.				x	x	x	x	x	x		x	x	x
14a.				x	x	x	x	x	x	n/a	x	x	x
14b.	x			x	x	x	x	x	x	n/a	x	x	x
14c.		x								n/a			
16a.				x	x	x	x	x	x	n/a	x	x	x
16b.	x			x	x	x	x	x	x	n/a	x	x	x
16c.	x			x	x	x	x	x	x	n/a	x	x	x
16d.	x			x	x	x	x	x	x	n/a	x	x	x

³ In addition to those listed in this table, the research paper identifies two other possible enhancements specifically applicable to the Province of Alberta. The reader is referred to Part 7 of this research paper for a more detailed description.

Detailed descriptions of the current situation and the findings specific to each province and each ICP are addressed in Part 7 of this research paper and are not summarized separately here.

PART 2 - INTRODUCTION

In Canada, financial solvency regulation (or prudential regulation) for the P&C insurance industry is either the responsibility of the federal or one of the provincial governments, depending on where the insurance company is incorporated. OSFI is responsible for the prudential supervision of P&C insurers incorporated federally as well as the Canadian P&C branch operations of insurers incorporated outside of Canada (referred to in this research paper as Federal P&C Insurers). The provincial regulatory authorities are responsible for the solvency oversight of P&C insurers incorporated in their respective province (referred to in this research paper as Provincial P&C Insurers⁴). While most P&C insurers operating in Canada are federally incorporated, and are as a result under OSFI's prudential supervisory oversight, there were 93 Provincial P&C Insurers (including provincial automobile insurance crown corporations) in Canada during 2011⁵.

P&C insurers, whether Federal P&C Insurers or Provincial P&C Insurers, must be licensed to operate in each province or territory in which they undertake insurance activities. As such, each P&C insurer operating in Canada is required to satisfy the market conduct requirements of each province in which they are licensed as well as the solvency requirements of the jurisdiction of their incorporation⁶. In addition, the Autorité des marchés financiers (AMF) actively supervises all insurers licensed to conduct business in the Province of Quebec, both from market conduct and solvency perspectives.⁷

The relevant legislations include:

- *Office of the Superintendent of Financial Institutions Act,*
- *Insurance Companies Act of Canada (ICA);*
- *British Columbia: Insurance Act;*
- *British Columbia: Financial Institutions Act;*
- *Alberta: Insurance Act;*
- *Saskatchewan: The Saskatchewan Insurance Act;*
- *Manitoba: The Insurance Act;*
- *Ontario: Financial Services Commission of Ontario Act;*
- *Ontario: Insurance Act;*
- *Québec: An Act Respecting Insurance;*
- *Québec: An Act Respecting the Autorité des Marchés Financiers;*

⁴ For insurers regulated by Canadian Territories, such as Yukon, Northwest Territories and Nunavut, the term "Territorial P&C Insurers" will be used. However, in general discussions of Canadian P&C insurers that are not federally regulated, the term "Provincial P&C Insurers" includes the "Territorial P&C Insurers".

⁵ Data from a January 2013 report prepared by the Solvency Forum Committee of CCIR titled "Report on Provincially chartered insurers and provincial solvency supervision framework". This report was provided by Grant Kelly of PACICC and includes 93 Provincial P&C Insurers. During the interview process, the Prince Edward Island (PEI) insurance regulator indicated that there are currently two Provincial P&C Insurers in PEI. These insurers are not included in the total shown here as they were not included in the data provided by PACICC.

⁶ For the purpose of Canadian solvency regulation, Canadian branches of foreign insurers are considered to be subject to federal solvency requirements.

⁷ For insurers incorporated in another Canadian jurisdiction, AMF may take into consideration the supervisory functions performed by the regulator in the home jurisdiction of the insurer, but nonetheless, every insurer licensed to do business in Quebec is subject to a detailed analysis by the AMF of financial (Annual Return and Minimum Capital Test (MCT)) and actuarial (AAR and DCAT) information.

- New Brunswick: *Insurance Act*;
- Nova Scotia: *Insurance Act*;
- Prince Edward Island: *Insurance Act*;
- Newfoundland and Labrador: *Insurance Companies Act*;
- Northwest Territories: *Insurance Act*;
- Nunavut: *Insurance Act*; and
- Yukon: *Insurance Act*.

The Canadian Council of Insurance Regulators (CCIR) is an inter-jurisdictional association of insurance regulators with the mandate to facilitate and promote an efficient and effective insurance regulatory system in Canada to serve the public's interest⁸. The CCIR accomplishes this mandate by improving the coordination amongst provincial supervisors. All provincial insurance regulators in Canada are members of CCIR while OSFI is an associate member who is allowed to participate in the CCIR meetings as an observer. As part of its 2011 to 2014 strategic plan, the CCIR reported that one of the major issues recognized by the insurance industry as requiring further attention was the harmonization of insurance laws across the country. While it is not the CCIR's role to harmonize insurance laws and it is also beyond the mandate of most CCIR members to create or change laws in their respective jurisdictions⁹, the issue of harmonization remains a key issue to the P&C insurance industry and the actuaries serving in financial reporting and solvency monitoring roles for the industry.

In Canada, a variety of mechanisms are in place for the protection of insurance consumers. In addition to the General Insurance OmbudService¹⁰ and similar provincial mechanisms, policyholder compensation schemes protect eligible policyholders from undue financial loss in the case of a member insurer's insolvency. In the P&C insurance sector, PACICC is the national guarantee fund and insurers are required, as a condition of licensing by provincial supervisory authorities, to become members of PACICC.

Research conducted by PACICC has shown that inadequate pricing and deficient policy liabilities are the leading causes of insolvency for Canadian P&C insurers. Actuaries play a key role in both of these functions. For example, in Canada, the amount of policy liabilities that P&C insurers need to set aside to meet their financial obligations to policyholders are determined by actuaries.

The Canadian framework for the setting of actuarial Standards of Practice is well established. The Actuarial Standards Board (ASB) issues Standards of Practice applicable to all members of the CIA doing actuarial work in Canada. The CIA is a self-regulatory professional body that is responsible for enforcing these Standards of Practice through potential disciplinary actions for its non-compliant members.

In addition to professional standards promulgated by the ASB, requirements for P&C actuaries working with Canadian P&C insurance companies arise from the federal and provincial Insurance Legislation as well as from regulations and other forms of guidance issued by OSFI and the

⁸ CCIR. Accessed September 5, 2014. <http://www.ccir-ccrra.org/en/about/>.

⁹ As regulators, members of the CCIR administer those laws, provide advice to policy makers and present the policy makers with the facts and issues in the marketplace. However, they are not policy makers themselves.

¹⁰ The General Insurance OmbudService is a national service for adjudicating on complaints against P&C insurance companies.

provincial regulators. These requirements can vary significantly across Canada, depending on where an insurance company is prudentially regulated.

As part of its 2014 organizational priority, PACICC launched a discussion about how to improve the practice of pricing and reserving for P&C insurance companies. As it has been found that 90 percent of the PACICC members that have failed since 1988 were provincially-supervised, PACICC engaged KPMG to produce a research paper to review those sections of the provincial Insurance Legislation that relate to actuaries, and their role in safeguarding the solvency of P&C insurers, and benchmark those sections against international sound practices.

The IAIS is an international standard setting body representing insurance regulators and supervisors from more than 200 jurisdictions in nearly 140 countries. The IAIS is responsible for developing and assisting in the implementation of common principles, standards and other materials to promote effective and globally consistent supervision of the insurance industry¹¹. OSFI has been a member of the IAIS for many years and has played an active role in the development of international standards. The provinces of British Columbia and Quebec are also active members of the IAIS¹².

The purpose of the research paper is to:

- Review the definition of the term “actuary” found in applicable federal and provincial Insurance Legislation;
- Review the IMF Assessment Report for Canada to identify sound practices related to the actuaries’ role in reserving and solvency monitoring;
- Contrast the powers of provincial superintendents with regards to the reserving and solvency monitoring roles performed by actuaries relative to international sound practices; and
- Review regulatory and legislative requirements to assess solvency under the IAIS ComFrame.

This research paper does not recommend specific legal wording that could be used to modify sections of the relevant federal and provincial Insurance Legislation to be in line with the international sound practices identified by the IAIS. However, it is understood that PACICC may use the findings from this research paper to comment on possible enhancements that each of the Canadian insurance regulators, both at the provincial and federal levels, could consider in modifying specific elements of their Insurance Legislation.

¹¹ IAIS. Accessed September 1, 2014. <http://www.iaisweb.org/About-the-IAIS-28>.

¹² IAIS. Accessed January 6, 2015.

<http://www.iaisweb.org/index.cfm?event=showHomePage&persistId=853B38CE155D896B0053041336958E2A>.

PART 3 - SCOPE

The scope of this research paper is limited to a review of those sections of the ICA and the applicable provincial Insurance Legislation that relate to the actuaries' role in safeguarding the solvency of P&C insurers that are required to be members of PACICC.

Specifically, this research paper only addresses matters that relate to P&C insurers' reserving and solvency practices. Furthermore, this research paper does not review the role of actuaries in safeguarding the solvency of P&C insurance organizations that are not subject to PACICC membership¹³. P&C insurance entities not covered by PACICC include: farmers mutual insurance companies participating in another authorized Canadian compensation plan, reinsurance companies, fraternal societies, captive insurers, and self-insurance arrangements such as reciprocal insurance exchanges and self-insurance funds.

Throughout this research paper, the terms "insurer" and "insurance companies" only refer to insurance organizations that are subject to PACICC membership.

¹³ PACICC membership is required in all Canadian jurisdictions for the licensing of P&C insurers underwriting PACICC-covered lines of business, unless the insurance organization is covered by another authorized Canadian compensation plan.

PART 4 - RESEARCH APPROACH

To complete this research assignment, we conducted a literature review and personal interviews with relevant stakeholders. Through internet research as well as through discussions with PACICC, we identified relevant reports, articles, and consultation papers, as well as applicable provincial and federal legislation, regulations, and guidelines. A complete list of all reference resources is included in Appendix A of this paper.

We reviewed the sections that relate to the P&C actuaries' role in the context of solvency framework in the Insurance Legislation for each province as well as the ICA and we benchmarked those sections against the ICPs put together by the IAIS.

We also reviewed the detailed assessment of observance of ICPs prepared by the IMF on Canada's regulatory regime and supervisory practices. This report was published in March 2014 as part of the IMF's financial sector assessment program (FSAP).

To confirm our interpretation of the various documents under review and to gain additional insights on changes and amendments being developed in each province, we reached out by telephone and email to individual provincial insurance solvency regulators. Specifically, we conducted telephone interviews with representatives of the insurance regulation divisions for each of the following provinces and territories:

- Alberta;
- British Columbia (BC);
- Manitoba;
- New Brunswick;
- Nunavut;
- Quebec; and
- Prince Edward Island (PEI).

We also communicated with all other Canadian provinces and territories through email. The Saskatchewan Superintendent chose to provide written responses to the questionnaire and did not participate in a telephone interview. The Financial Services Commission of Ontario (FSCO) declined to participate in a formal interview but provided relevant information through email. All other provinces and territories did not respond to our inquiry.

To assist in the collection of information, we worked with PACICC to develop a questionnaire that was distributed to each provincial insurance solvency regulator ahead of our telephone interviews. We used the questionnaire to guide discussions during the interviews. The complete questionnaire is included in Appendix B to this paper.

In reporting on the results of our interviews and literature research, we limit the information included in this research paper to the elements that are relevant for the specific scope requested by PACICC (i.e., the benchmarking against international sound practices of those sections of federal and provincial Insurance Legislation that relate to actuaries and their role in safeguarding the solvency of P&C insurers). Thus there may be some questions for which we gathered information but for which the feedback is not included in this research paper.

In addition to individual provincial insurance solvency regulators, we identified other relevant stakeholders, such as the CIA, OSFI, and the CCIR. We conducted interviews with representatives of two committees of the CIA: the P&C Financial Reporting Committee (PCFRC) and the Committee on Risk Management and Capital Requirements (CRMCR). We also had a short discussion with OSFI representatives. Finally, as all individual provincial insurance solvency regulators are members of the CCIR, we did not conduct additional interviews with the CCIR.

PART 5 - DEFINITION OF THE TERM “ACTUARY” IN INSURANCE LEGISLATION

One of the objectives of this assignment was to research whether the term “actuary” is defined in the Insurance Legislation for each province, as well as in the ICA. The table below summarizes the results of this study by Canadian jurisdiction.

Province/Territory	Definition of the Actuary
Alberta	A designated individual or an individual who is the actuary of a provincial property and casualty company must (a) be ordinarily resident in Canada, and (b) be a Fellow in good standing of the CIA or be approved by the Minister as having the training and experience that are relevant to the duties of an actuary of a provincial company.
British Columbia	<i>Financial Institutions Act</i> provides the following qualification requirements for the actuary: “A designated individual or an individual who is the actuary of an insurance company that is authorized to carry on one or more classes of general business insurance, but is not authorized to carry on life insurance business, must be a fellow in good standing of the Canadian Institute of Actuaries or be approved by the commission as having the training and experience necessary to perform the duties of an actuary of a provincial company.” ¹⁴
Manitoba	“Actuary” means an FCIA.
New Brunswick	No definition of P&C actuary. The only definition found in the New Brunswick <i>Insurance Act</i> is located in the “Fraternal Society” section. This section does not apply to Provincial P&C Insurers.
Newfoundland and Labrador	No definition.
Northwest Territories	“Actuary” means an FCIA.
Nova Scotia	No definition.
Nunavut	“Actuary” means an FCIA.
Ontario	“Actuary” means an FCIA.
Prince Edward Island	No definition of P&C actuary. The only definition found in the PEI <i>Insurance Act</i> is located in the “Fraternal Society” section. This section does not apply to Provincial P&C Insurers.

¹⁴ BC *Financial Institutions Act*

Quebec	“Actuary” means an FCIA.
Saskatchewan	“Actuary” means an FCIA.
Yukon	“Actuary” means an FCIA.

In addition, the ICA defines an actuary as an FCIA, and similarly, International Standards of Actuarial Practice (ISAP) define an actuary as an individual member of one of the member associations of the International Actuarial Association (IAA). The CIA is a member of the IAA.

From the table above, it is evident that nine out of thirteen jurisdictions in Canada define an actuary as an FCIA in the applicable Insurance Legislation, whereas other jurisdictions either refer to Societies that are not relevant to Canadian P&C actuaries, or they do not provide a definition at all within their Insurance Legislation. Based on the interviews conducted with jurisdictions who do not currently define “actuary” as an FCIA in their Insurance Legislation, these insurance supervisory authorities may not see the lack of a specific definition as a pressing issue for a number of reasons. Part 7 of this research paper provides further background on these reasons.

Alberta has the most extensive definition of the term actuary. Under section 395 of the Alberta *Insurance Act – Qualifications of actuary*, to qualify as the actuary for a provincial P&C company, an individual must be a Fellow in *good standing* of the CIA, as well as a Canadian resident.

Exception to the FCIA Requirement in Alberta and British Columbia

The Alberta *Insurance Act* and the BC *Financial Institutions Act* also include an added clause that allows the Minister/FICOM to approve a designated individual to serve as actuary for a provincial P&C company without having to be an FCIA, as long as the Minister/FICOM is satisfied that the designated individual has the necessary training and experience that are relevant to the duties of an actuary of a provincial company.

During the interview process, the Acting Deputy Superintendent of Insurance in Alberta (Alberta Superintendent), explained that this clause had been included in the Alberta *Insurance Act* for historical reasons, to accommodate a small provincial insurer for whom, in the past, the Minister had allowed an internal staff person who was not an FCIA to serve as the actuary for financial reporting purposes. This situation no longer exists as all Alberta Provincial P&C Insurers now have an FCIA serving as their actuary. Consequently, the Alberta Superintendent would be agreeable to removing the clause from the qualification requirements. This would ensure consistency between the qualification requirements applicable to actuaries of both Alberta Life and P&C Provincial Insurers.

In BC, the deputy Superintendent explained that in cases where the proposed appointed actuary of a Provincial P&C Insurer does not meet the requirement of being an FCIA in good standing, FICOM will ultimately decide whether to approve the individual as appointed actuary on a case-by-case basis. This decision would be based on the appropriateness of the knowledge, expertise and past experience of the person being put forward. Similar to Alberta, FICOM mentioned during the interview process that there are no longer any Provincial P&C Insurers using the services of an actuary who is not an FCIA. The clause was originally included in the *FIA* to accommodate an

insurer specializing in a type of business for which the actuarial expertise was not readily available in Canada.

Difference between Life and P&C Actuaries

Based on conversations with various provincial superintendents, it appears that most provinces would agree that there is no need to make a distinction between the definition of life and P&C actuaries in Canadian Insurance Legislation.

In the past, it appears that some Provincial P&C Insurers were allowed by the Alberta Minister and FICOM to appoint an individual other than an FCIA to serve as the actuary for financial reporting and solvency monitoring purposes as long as they were deemed to have the necessary experience. This special permission that could be granted by the Alberta Minister or by FICOM was not available to Provincial Life Insurers. During the interviews, the Alberta superintendent explained that the historical reason underlying this difference had been due to the small size of one of the companies. However, this is no longer the case in Alberta and as a result, the Alberta superintendent explained that they now believe that there is no need to make a distinction between the qualification requirements necessary for an individual to serve as the (appointed) actuary for Provincial Life Insurers and Provincial P&C Insurers.

Canadian Residency

Another point that stemmed from the definition of “actuary” included in the Alberta’s *Insurance Act* was the requirement for Canadian residency. After speaking to various provincial superintendents, as well as committees of the CIA, it appears that the majority of the people interviewed do not believe that a Canadian residency requirement is necessary. To further expand on this opinion, one of the respondents to the survey pointed out that there is a general trend in Canada not to restrict the ability to work based on a residency requirement. This is being accomplished through law, treaties and trade agreements. In addition, it was felt by many that it may not be practical or even possible to include or enforce such a requirement.

To provide a different perspective, the following paragraphs discuss a few of the possible reasons that could explain why some insurance solvency regulators might be in favour of a requirement for appropriate Canadian practical experience.

While general methodology and approaches used by the actuaries involved in solvency monitoring and valuation work in Canada and elsewhere in the world may be similar, there are significant differences that actuaries need to be aware of in their selection of actuarial factors and assumptions. Actuarial factors such as trends, claim developments, and increased limit factors should reflect the local environment – the underlying statute of limitations and court precedents of the jurisdiction, as well as the economic and inflationary forces of the jurisdiction. Similarly, analyses of the reasonableness of results such as severities, frequencies, and pure premiums are most relevant when compared to other Canadian insurance entities. While it is possible for actuaries residing outside of Canada to familiarize themselves with the local environment of the jurisdiction for which they are providing an opinion, it does not necessarily equate to the practical understanding of the many facets of the environment, which can influence the claims, that an

actuary who is a Canadian resident would bring to the table. For example, a bad winter can result in an unusual number of pot holes on city roads which can drive up the number of automobile liability claims. Similarly, changes in provincial taxes, such as HST, can influence future settlement values. A local presence could be seen as important for best appreciating the many economic influences on the cost of claims.

OSFI's *Guideline E-15 - Appointed Actuary: Legal Requirements, Qualifications and Peer Review (Guideline E-15)* addresses some of these potential concerns through a number of additional requirements for individuals to be considered suitable to serve as an appointed actuary. These additional requirements include:

In assessing the suitability of an AA, the Superintendent expects that the AA has each of the following qualifications:

1. has appropriate Canadian practical experience, which is defined as Work in Canada for at least three of the last six years, of which at least one year was performing valuation of Canadian actuarial liabilities of an insurance company;
2. has experience with the CIA's Standards of Practice and relevant insurance legislation and regulation;
3. is up to date with respect to the CIA's Continuing Professional Development requirement;
4. has not been the subject of an adverse finding by a CIA Disciplinary Tribunal. Where there has been such a finding, the Superintendent may nevertheless conclude that the AA is a suitable person if the circumstances of the case and other information support such a conclusion.¹⁵

Although OSFI does not require the appointed actuaries of Federal P&C Insurers to reside in Canada, the additional qualification requirements describe OSFI's view of appropriate Canadian practical experience. Some provincial superintendents share this view and mentioned during the interview process that they are planning to or have already adopted OSFI's *Guideline E-15*.

As stated earlier, the majority of provincial superintendents who participated in the interview process do not believe that a Canadian residency requirement is necessary as it would not guarantee professionalism or practical experience. For these provincial superintendents, the FCIA requirement is seen to be sufficient.

Comments from Other Stakeholders

The main message that was communicated to us by the CIA is that consistency in the definition of the actuary is key – both across Canadian jurisdictions and across various insurance entities. Most of the provincial insurance regulators who participated in the interview process also agreed.

Another possible enhancement to the definition of an actuary, which was brought forward by members of the CIA committees who participated in the survey, is to refer to the CIA as the

¹⁵ OSFI, *Guideline E-15*, September 2012: page 6.

organization responsible for defining the qualification requirements necessary for an actuary to serve as appointed actuary for insurance companies operating in Canada. Additional requirement or modifications to the CIA requirements could then be added by provincial or federal regulators, as deemed necessary. This would allow flexibility in changing the definition or the requirements for the appointed actuary as the actuarial profession evolves without having to go through a complex and intricate process of modifying the Insurance Legislation to keep up with the actuarial developments. For example, in the 2006 version of OSFI's *Guideline E-15*, there was an additional fifth qualification requirement for an appointed actuary, which stated that "if the CIA in future requires an Appointed Actuary's Certificate, [the actuary serving as AA must be] in possession of an up-to-date Appointed Actuary Certificate from the CIA.¹⁶" Since the CIA is constantly changing and evolving to keep up-to-date with the ever-changing economic and global insurance environments, it would be very difficult to keep updating Canadian Insurance Legislation to accommodate such changes. Issuing updated Guidelines allows for more flexibility and provides the opportunity for both the CIA and the provincial superintendents to keep the requirements for actuarial qualifications current and in line with international sound practices. This would also help to ensure that both the government and the public are confident in the qualification of the individuals serving as (appointed) actuaries.

¹⁶ OSFI, *Guideline E-15*, November 2006: page 6.

PART 6 - INTERNATIONAL MONETARY FUND'S FINANCIAL SECTOR ASSESSMENT OF CANADA

The requirements for P&C actuaries working in a financial reporting and solvency monitoring function with Federal P&C Insurers are defined in the ICA as well as in many other forms of guidance issued by OSFI to articulate its regulatory and supervisory expectations, which include:

- Guidelines and related advisories that are used to establish best or prudent practices for the insurance industry such as solvency prudential, and accounting standards as well as sound business and financial practices;
- Advisories that are used to clarify OSFI's position regarding certain policy issues or to describe how OSFI generally administers and interprets the ICA, regulations or guidelines;
- Rulings that describe how OSFI has applied or interpreted provisions of the ICA, regulations or guidelines in specific cases; and
- Discussion papers that articulate OSFI's general policy direction in a specific area.

While OSFI's various guidance documents do not have the force of law, they set out OSFI's supervisory expectations. OSFI's requirements have recently been assessed against international sound practices (as defined by the IAIS) through the IMF's FSAP process.

Part 6 of the research paper summarizes the comments and findings of the IMF's FSAP, which are relevant to the scope of this research paper regarding the actuary's role in safeguarding the solvency of Canadian P&C insurers.

Current Canadian Regulatory Requirements of the Actuary – Federal Regulation

As part of its insurance supervisory role OSFI issues numerous guidelines that are used to set the standards relied on by OSFI to govern the activities and behavior of the insurance industry. These guidelines document the federal regulator's most up-to-date interpretation of the best or prudent practices that OSFI expects insurers to follow. Some of the guidelines relevant to the P&C actuaries' role in solvency monitoring and valuation include:

- *Guideline E-15: Appointed Actuary: Legal Requirements, Qualification and External Review;*
- *Guideline A: Minimum Capital Test (MCT) for Federally Regulated Property and Casualty Insurance Companies;*
- *Guideline A-4: Regulatory Capital and Internal Capital Targets;*
- *Guidelines D-1B: Annual Disclosures (P&C insurance enterprises);*
- *Guidelines D-7: Accounting for Reinsurance of Short-Term Insurance Contracts by P&C Insurers;*
- *Guideline B-9: Earthquake Exposure Sound Practices;*
- *Guideline E-18: Stress Testing;*
- *Guideline B-3: Sound Reinsurance Practices and Procedures;*
- *Guideline E-19: Own Risk and Solvency Assessment (ORSA); and*
- *Corporate Governance Guideline.*

In addition to the numerous guidelines listed above, OSFI issues the *Memorandum for the Appointed Actuary's Report on Property and Casualty Insurance Business (OSFI's Memo to the AA)* to provide guidance and minimum requirements for P&C actuaries serving as appointed actuaries to Federal P&C Insurers. *OSFI's Memo to the AA* is updated on an annual basis, pursuant to section 667 of the ICA and is typically released in the fall of each year.

The following sections summarize the relevant portions of the ICA, OSFI's *Guideline E-15* and *OSFI's Memo to the AA*, which directly describe OSFI's requirements of the AA, to provide background information for the assessment performed by the IMF. A short summary description of the relevant sections for the other guidelines listed above can be found in the research report titled "The P&C Actuary's Role in Solvency Monitoring as Set Out in Legislation, Regulatory Requirements, and Professional Standards of Practice", prepared by KPMG on behalf of PACICC in 2011¹⁷. In addition, interested readers can access the official guideline documents issued by OSFI using the following link to the OSFI website: <http://www.osfi-bsif.gc.ca/eng/fi-if/rg-ro/gdn-ort/gl-lid/Pages/default.aspx>.

ICA

The role of the actuary for Federal P&C Insurers is enshrined in the ICA.

Each federally regulated insurer is required, through the ICA, to appoint an actuary for the company and to notify the Superintendent, in writing, of the appointment. Part IV – Organization and Commencement, section 49(1), requires the directors of each federally regulated insurer to "appoint an actuary to be the actuary of the company or society¹⁸" while Part XIII – Foreign Companies, Section 623(1) states that "a foreign company that is required by this *Act* to provide the Superintendent with the report of an actuary shall without delay appoint a person to be the actuary of the foreign company for its insurance business in Canada.¹⁹" Sections 357 and 623(2) enunciate the notification requirements.

Details regarding the actuarial role and the responsibilities applicable to the appointed actuary of Federal P&C Insurers are set out in Part IV – Corporate Governance, Division XIV – Actuaries (sections 357 through 370). This Division provides the federal requirements related to the:

- Appointment, including: Notice of appointment, Officer precluded, Duration of authorization, and Chief Financial Officer;
- Vacancies, including: Revocation of appointment, Ceasing to hold office, Filing vacancy, Statement of actuary, and Duty of replacement actuary;
- Valuations and Reports: Actuary's valuation, Superintendent may appoint actuary, Right to information, Actuary's report, Report to Directors, and Report to Officers; and
- Qualified privilege for statements.

¹⁷ <http://www.pacicc.com/publications/pages/publications/Actuary's%20Role%20in%20Solvency%20Monitoring.pdf>.

¹⁸ ICA, Part IV, Section 49(1). <http://laws-lois.justice.gc.ca/eng/acts/l-11.8/page-19.html#h-12>.

¹⁹ ICA, Part XIII, Section 623(1). <http://laws-lois.justice.gc.ca/eng/acts/l-11.8/page-228.html#h-170>.

Similar requirements, applicable to the appointed actuary of the Canadian branch of a foreign company are set out in Part XIII – Foreign Companies, Sections 623 through 632.

Some of the key requirements regarding the responsibilities of the appointed actuary for Federal P&C Insurers are set out in the following sections of the ICA:

- Section 365²⁰:

The actuary of a company shall value:

- The actuarial and other policy liabilities of the company as at the end of a financial year; and
- Any other matter specified in any direction that may be made by the Superintendent.

The actuary's valuation shall be in accordance with generally accepted actuarial practice with such changes as may be determined by the Superintendent and any additional directions that may be made by the Superintendent.²¹

- Section 367(1):

The actuary of a company shall, not less than twenty-one days before the date of the annual meeting of the shareholders and policyholders of the company, make a report in the prescribed form²² to them on the valuation made under section 365 and on any other matter that is prescribed²³.

- Section 367(2):

In each report required under subsection [367](1), the actuary shall state whether, in the actuary's opinion, the annual statement presents fairly the results of the valuation made under section 365²⁴.

- Section 368²⁵:

The actuary of a company shall meet either with the directors of the company or, where the directors so choose, with the audit committee of the company at least once during each financial year in order to report, in accordance with generally accepted actuarial practice and any direction that may be made by the Superintendent, on the financial position of the company and, where so specified in such a direction, the expected future financial condition of the company²⁶.

The report on the expected future financial condition of the company is also known as DCAT report.

²⁰ Section 629 of the ICA set out similar requirements with respect to the insurance business in Canada of foreign companies.

²¹ ICA, Section 365. <http://laws-lois.justice.gc.ca/eng/acts/l-11.8/page-125.html#h-78>.

²² Note that while the ICA specifies that the actuary's report must be in a "prescribed form", such form is actually defined in *OSFI's Memo to the AA* rather than in the ICA.

²³ ICA, Section 367(1). <http://laws-lois.justice.gc.ca/eng/acts/l-11.8/page-126.html#docCont>.

²⁴ ICA, Section 367(2). <http://laws-lois.justice.gc.ca/eng/acts/l-11.8/page-126.html#docCont>.

²⁵ Section 630 of the ICA sets out similar requirements with respect to the chief agent of foreign companies.

²⁶ ICA, Section 368. <http://laws-lois.justice.gc.ca/eng/acts/l-11.8/page-126.html#docCont>.

- Section 369²⁷:

The actuary of a company shall report in writing to the chief executive officer and chief financial officer of the company any matters that have come to the actuary's attention in the course of carrying out the actuary's duties and that in the actuary's opinion have material adverse effects on the financial condition of the company and require rectification.

An actuary of a company who makes [such] a report shall forthwith provide a copy of it to the directors of the company.

Where, in the opinion of the actuary of the company, suitable action is not being taken to rectify the matters referred to in [such a report], the actuary shall forthwith send a copy of the report to the Superintendent and advise the directors that the actuary has done so²⁸.

Guideline E-15

OSFI's *Guideline E-15*, which was first issued in 2003 and revised in November 2006 and September 2012, applies to all Federal P&C Insurers. The "Introduction" section to OSFI's *Guideline E-15* states:

This Guideline describes the role of the Appointed Actuary in federally regulated insurance companies and sets out some of OSFI's expectations with respect to that role. The Guideline is divided into three parts. The first part summarizes the major responsibilities of the actuary as described in the Insurance Companies Act (ICA) and the related Guidelines and Memoranda published by OSFI. The second part deals with the actuary's qualifications required to carry out the Appointed Actuary's role, and the third part sets out OSFI's expectations with respect to peer review of the Appointed Actuary's work and reports.

Other OSFI Guidelines and Memoranda contain additional information related to the responsibilities of the Appointed Actuary. Particularly important in this regard is the annual Memorandum to the Appointed Actuary. OSFI issues separate versions of the Memorandum to actuaries of life insurance companies and to actuaries of property and casualty insurance companies²⁹.

As part of "Section 1: Legal Requirements of the Appointed Actuary", *Guideline E-15* also sets out OSFI's expectations with regards to the annual requirement for AA's to report on the expected future financial condition (also known as DCAT report) of Federal P&C Insurers. OSFI expands on the requirements set out by the ICA and states:

The Superintendent expects that a report on the company's expected future financial condition will be prepared annually in compliance with the CIA standards. The DCAT report should be presented to the directors of the company, or where the directors so

²⁷ Section 631 of the ICA sets out similar requirements with respect to the chief agent of foreign companies.

²⁸ ICA, Section 369. <http://laws-lois.justice.gc.ca/eng/acts/l-11.8/page-126.html#docCont>.

²⁹ OSFI, *Guideline E-15*, September 2012, Cover Note

choose, with an appropriate subcommittee of the board (e.g. audit committee, risk committee, etc.). A DCAT report shall be based on the prior year end financial position or a more recent position. If the DCAT report is presented to the board of directors in the second half of the financial year, then it shall include material changes in experience and in financial position up to the period of 90 days before the date of presentation. It is expected that the projection period for studies of life companies will be for at least five years and for P&C companies will be for at least three years. A copy of the report will be filed with OSFI within thirty days of presentation to the company's directors, but no later than the end of the calendar year.³⁰

As previously noted in Part 5 of this research paper, the ICA requires the AA to be an FCIA, which means that actuaries serving as AA for Federal P&C Insurers are required to abide by the CIA's Rules of Professional Conduct and perform their work in accordance with accepted actuarial practice in Canada. "Section 2: Qualifications Required" of *Guideline E-15* states that in assessing the suitability of an AA, OSFI expects each AA to hold additional qualifications:

1. has appropriate Canadian practical experience, which is defined as Work in Canada for at least three of the last six years, of which at least one year was performing valuation of Canadian actuarial liabilities of an insurance company;
2. has experience with the CIA's Standards of Practice and relevant insurance legislation and regulation;
3. is up to date with respect to the CIA's Continuing Professional Development requirement;
4. has not been the subject of an adverse finding by a CIA Disciplinary Tribunal. Where there has been such a finding, the Superintendent may nevertheless conclude that the AA is a suitable person if the circumstances of the case and other information support such a conclusion.³¹

The third and final section of *Guideline E-15* describes OSFI's requirements with regards to the regular peer review of certain work performed by the AA of Federal P&C Insurers. OSFI provides the following background information:

OSFI believes that regular peer review of certain work performed by the AA is of significant benefit both to OSFI and to a company's stakeholders by contributing to the safety and soundness of insurance companies, as described in the general objectives below. In addition, regular peer review is also of benefit to the AA by providing a source of independent advice and a means of consulting with other knowledgeable actuaries. Consequently, OSFI expects that all federally regulated insurance companies will appoint peer reviewers to implement peer review processes consistent with the OSFI criteria described below. The peer review should be conducted in accordance with accepted actuarial practice as specified in the

³⁰ OSFI, *Guideline E-15*, September 2012, page 4.

³¹ OSFI, *Guideline E-15*, September 2012, page 6.

CIA's *Standards of Practice*, in particular with section 1640 of these standards and any related educational notes.³²

For Federal P&C Insurers, OSFI expects the external reviewer to:

1. ascertain that the work of the AA for the valuation of policy liabilities and ceded reinsurance assets is in compliance with accepted actuarial practice, as established by the Actuarial Standards Board and the CIA, and is consistent with any objectives or requirements established by OSFI in Regulations, Guidelines or the Memorandum to the AA (Note that the peer review work is not intended to duplicate the work of the external auditor. See Section 3d below.);
2. review the appropriateness and extent of internal and external material changes affecting the valuation of policy liabilities and ceded reinsurance assets. The reviewer should assess the risk of material misstatement or omissions arising from each change, as opposed to just the net effect of off-setting changes;
3. review the adequacy of procedures, systems and the work of others relied on by the AA, to the extent that these are not reviewed by the external auditor. This includes checks on data integrity and checks on procedures and methodologies used to validate the valuation calculations and results;
4. discuss with the AA the appropriateness of each of the assumptions used and the methods employed in the valuation of actuarial policy liabilities and ascertain that the assumptions are at the appropriate point in the range of accepted actuarial practice, given the circumstances of the company;
5. determine whether the Appointed Actuary's Report (AAR) sufficiently describes the valuation assumptions and valuation methodology employed by the AA;
6. for P&C companies' MCT/BAAT [Branch Adequacy of Assets Test] returns, review the work of the AA in the areas that require actuarial assumptions and calculations and ensure the work is consistent with the report, if any, accompanying these filings;
7. review and discuss with the AA the methodology, assumptions and scenarios used for future financial condition reporting as required by the Superintendent in Section 1 of this Guideline, usually based on Dynamic Capital Adequacy Testing (DCAT); and
8. produce a written report(s) documenting the findings of the peer review.³³

As part of Section 3, OSFI also contrasts the expectation of the peer reviewer with those of the external audit. OSFI's *Guideline E-15* states:

OSFI's objective and scope for peer review is to assess the safety and soundness of insurers by reviewing the AA's work for the financial statements at a more granular

³² OSFI, *Guideline E-15*, September 2012, page 7.

³³ OSFI, *Guideline E-15*, September 2012, pages 7 and 8.

level. It is OSFI's view that each of the assumptions used should be independently reasonable, in accord with accepted actuarial standards, and that the methodology should be appropriate for each valuation model. OSFI expects the peer reviewer to express an opinion on the appropriateness of the policy liabilities at this more granular level and to provide feedback to the AA on the various aspects of their work. Therefore, since the objective of an external audit differs from the objective of a peer review, the audit work done to satisfy the audit requirements may not be sufficient to fully address the peer review requirements under this Guideline.

It is not OSFI's intention that the requirements for the peer review work duplicate the work of the external auditor, including any actuary assisting the auditor. The peer reviewer is not required to perform any detailed recalculations, as long as the reviewer determines that the controls and procedures used by the AA are adequate to identify potential errors in the valuation results. The peer reviewer is also not required to verify data or controls.

Where the auditor's actuarial specialist on the engagement team is not an FCIA, the peer reviewer should take extra care to verify that all CIA standards are met by the AA.³⁴

Finally, *Guideline E-15* also comments on OSFI's requirements regarding the peer review cycle and timing for the completion of peer review reports. It states that "a full review of the financial condition reporting ... is expected to be prepared every three years. A limited annual review is only required to address the appropriateness of the scenarios employed. The peer reviewer is expected to prepare reports documenting the findings of both the full 3-year review and the limited annual review."³⁵

Memorandum for the Appointed Actuary's Report on Property and Casualty Insurance Business

OSFI's *Memo to the AA* summarizes the regulator's expectations for the AAs who prepare reports to be filed with the annual returns (i.e., the P&C-1 and P&C-2) of Federal P&C Insurers. The "Introduction" section of the 2014 *OSFI's Memo to the AA* states:

This Memorandum describes the requirements of the Office of the Superintendent of Financial Institutions (OSFI) with respect to the Appointed Actuary's Report (AAR), sets out the minimum standards used in determining the acceptability of the AAR and provides guidance for actuaries preparing reports in matters relating to presentation, level of detail and nature of the discussions to be included.

...

Many insurers are required to file an AAR, 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 AAR submitted as part of the Annual Return to each regulator complies with the requirements of that regulator.

³⁴ OSFI, *Guideline E-15*, September 2012, pages 9 and 10.

³⁵ OSFI, *Guideline E-15*, September 2012, page 11.

The term AAR refers to the detailed actuarial report submitted to a regulator. This includes the opinion of the Appointed Actuary (Actuary) concerning the fairness and adequacy of the policy liabilities included in the insurer's financial statements, a detailed commentary, data exhibits and calculations supporting that opinion.

An important purpose of the AAR is to give OSFI a comprehensive report documenting the work done by the Actuary to calculate the policy liabilities. The AAR is a key component in OSFI's review process of the company's actuarial financial position and profile.

The AAR should not be considered to solely be a report from the company's Actuary to OSFI's actuaries. It is also intended for company management and is read by regulators who may not be actuaries but who are knowledgeable about insurance. It should be a generally understandable presentation that can be used as a key component in OSFI's monitoring of the company's financial results.³⁶

As *OSFI's Memo to the AA* plays a significant role in defining OSFI's expectations of the AA, specifically as it relates to financial reporting and solvency monitoring, a copy of the Table of Content of the 2014 document is included as Appendix C to this research paper. In addition, interested readers can access the most recent memo to the AA using the following link to the OSFI website: <http://www.osfi-bsif.gc.ca/Eng/fi-if/rtn-rlv/fr-rf/ic-sa/pc-sam/Pages/mia.aspx>.

Introduction to FSAP

The IAIS is an international standard setting body representing insurance regulators and supervisors from more than 200 jurisdictions in nearly 140 countries. The IAIS is responsible for developing and assisting in the implementation of common principles, standards and other material to promote effective and globally consistent supervision of the insurance industry³⁷. OSFI has been a member of the IAIS for many years and has played an active role in the development of international standards.

The ICPs are the highest level of insurance standards set out by the IAIS and are viewed as the globally-accepted framework for the regulation and supervision of the insurance industry. The IAIS further describes the scope and coverage of the ICPs as follows:

The ICP statements are the highest level in the hierarchy and prescribe the essential elements that must be present in the supervisory regime in order to promote a financially sound insurance sector and provide an adequate level of policyholder protection. Standards are the next level in the hierarchy and are linked to specific ICP statements. Standards set out key high level requirements that are fundamental to the implementation of the ICP statement and should be met for a supervisory authority to demonstrate observance with the particular ICP. Guidance material is the

³⁶ OSFI, *OSFI's Memo to the AA*, 2014, page 5.

³⁷ IAIS. Accessed September 1, 2014. <http://www.iaisweb.org/About-the-IAIS-28>

lowest level in the hierarchy and typically supports the ICP statement and/or standards. Guidance material provides detail on how to implement an ICP statement or standard. Guidance material does not prescribe new requirements but describes what is meant by the ICP statement or standard and, where possible, provides examples of ways to implement the requirements.³⁸

The ICPs are the base of all other IAIS standards and principles, including the IAIS' Common structure for the Assessment of Insurer Solvency (Common Structure).

In 1999, the IMF³⁹ instituted an FSAP under which it evaluates the insurance supervisory systems of its members to determine whether a jurisdiction is meeting internationally established principles for solvency regulation. As the IAIS standards, particularly the ICPs, are developed with the objective to enhance the financial stability of the insurance markets as well as for the benefit and protection of policyholders, they form the basis for FSAP evaluations performed by the IMF.

2014 Assessment of Canada

Canada is a member of the IMF and the Canadian federal insurance supervisory practices together with the Canadian regulatory regime were recently assessed under the FSAP. The IMF report, titled "Canada - Insurance Core Principles – Detailed Assessment of Observance" (IMF Assessment Report for Canada), was issued in March 2014. It provides a detailed description and benchmarking of OSFI's prudential supervision framework against the 26 ICPs issued by the IAIS in October 2011 (and revised in October 2012). The scope of the assessment performed by the IMF was limited to the prudential supervision exercised by OSFI (i.e., prudential oversight of Provincial P&C Insurers was not covered by the assessment program). Overall, the IMF found that "the Canadian regulatory regime for FRIs [federally regulated insurers] has a high level of observance with the ICPs, supported by robust prudential supervision by OSFI."⁴⁰

The Canadian provincial insurance supervisory practices and, more specifically, the provincial solvency regulatory regimes were not subject to the full IMF FSAP assessment. However, the CCIR formed the Insurance Core Principles Implementation Committee (ICPic) to work with regulators to ensure that all the core principles are being met in Canada, particularly those concerning fair treatment of customers⁴¹.

A review of the provincial Insurance Legislation and discussions with provincial regulators reveals that while OSFI has largely adopted the higher IAIS solvency standards and Canadian provinces who are active members of the IAIS (British Columbia and Quebec) are basing their current regulatory and supervisory regimes on the IAIS ICPs, the other provincial regulatory systems are currently at various stages in their implementation process of the international standards.

³⁸ IAIS, "Insurance Core Principles, Standards, Guidance and Assessment Methodology", October 1, 2011 (amended October, 2013), page 5.

³⁹ The IMF is an organization of 187 countries that fosters international monetary cooperation and secure financial stability. Since 2000, the IMF has been using IAIS standards in its FSAP reviews to assess the insurance regulatory and supervisory systems of jurisdictions around the world.

⁴⁰ IMF, "Canada - Insurance Core Principles – Detailed Assessment of Observance", March 2014, page 7.

⁴¹ CCIR. Accessed January 6, 2015. <http://www.ccir-ccra.org/en/init/ICPic/ICPic.asp>.

Discussion of each of the provincial insurance regulatory systems is presented in Part 7 of this research paper.

Although the IMF Assessment Report for Canada reviewed all 26 ICPs, this Part of the research paper focuses on the sections directly related to the scope of the research assignment requested by PACICC. While this research paper summarizes the findings of the IMF Assessment Report for Canada in the same order used by the IMF (i.e., in sequential order of the ICPs), the research paper only includes the ICPs that are directly or indirectly related to the role of the actuary in safeguarding the solvency of Canadian P&C insurers.

ICP 1 – Objectives, Powers and Responsibilities of the Supervisor

ICP 1 is defined by the IAIS as follows:

The authority (or authorities) responsible for insurance supervision and the objectives of insurance supervision are clearly defined⁴².

Furthermore, the following key high level requirements, defined as standards by the IAIS, are linked to ICP 1:

- 1.1 Primary legislation clearly defines the authority (or authorities) responsible for insurance supervision;
- 1.2 Primary legislation clearly defines the objectives of insurance supervision and the mandate and responsibilities of the supervisor and gives the supervisor adequate powers to conduct insurance supervision, including powers to issue and enforce rules by administrative means and take immediate action;
- 1.3 The principal objectives of supervision promote the maintenance of a fair, safe and stable insurance sector for the benefit and protection of policyholders; and
- 1.4 Where, in the fulfilment of its objectives, the supervisor identifies conflicts between legislation and supervisory objectives, the supervisor initiates or proposes correction in legislation.⁴³

Description of the Current Situation

The ICA has been subject to a “sunset clause” since 1992. Under this clause, which is designed to ensure that the legislation remains current and effective, the ICA is required to undergo a complete review every five years. To ensure that a comprehensive list of suggested amendments is submitted for consideration to the Minister at the time of the five-year legislative review, OSFI maintains a list of legislative and regulatory issues.

The IMF Assessment Report for Canada comments on the fact that OSFI is administratively empowered to issue policy guidance to articulate its regulatory and supervisory expectations as a

⁴² IAIS, “Insurance Core Principles, Standards, Guidance and Assessment Methodology”, October 2011 (amended October 2013), page 15.

⁴³ IAIS, “Insurance Core Principles, Standards, Guidance and Assessment Methodology”, October 2011, Amended October 2012 and October 2013, pages 15 and 16.

complement to the legislative framework. Although OSFI's various guidance documents do not have the force of law, they set out OSFI's expectations and Federal P&C Insurers are expected to comply with these expectations on a voluntary basis. According to the IMF Assessment Report for Canada, "OSFI could use other intervention powers, such as putting a FRI [federally regulated insurer] under a staged status (ICP 10) or issuing an order to force compliance. The ICA explicitly empowers the Superintendent to issue an Order."⁴⁴

In describing the current situation, the IMF Assessment Report for Canada further comments that:

OSFI is of the view that the use of guidelines is an advantage, given that the process to pass regulations is less swift and responsive to new developments. Nonetheless, current international best practice is for supervisors to be empowered to issue directly legally enforceable rules/standards via administrative means without going through the parliamentary process, in accordance with the parameters specified in the primary legislation. This allows the supervisor to respond in a timely manner to emerging developments and risks while retaining the capacity to articulate its supervisory expectation on issues that are difficult to be hardwired in law via guidance. In addition, the power of OSFI to issue an order beyond capital adequacy and liquidity requirements (e.g., corporate governance) has not been tested, in the absence of similar specific provision to issue an Order. There is a risk that a non-cooperative FRI will challenge OSFI on the basis that the ICA clearly provides a specific means for imposing mandatory requirements via regulations and OSFI's guidance has not gone through the due process and is not legally binding. Going forward, it is preferable that OSFI be explicitly empowered to issue directly legally enforceable rules.⁴⁵

Although ICP 1 may not appear to be directly related to the actuaries' role in safeguarding the solvency of P&C insurance companies, many of the guidelines issued by OSFI address (either directly or indirectly) OSFI's requirements for actuaries serving in a financial reporting and solvency monitoring role for Federal P&C Insurers.

IMF Assessment

On an overall basis, the IMF found that ICP 1 was largely observed by OSFI's insurance regulatory system. As part of the overall comments related to ICP 1, the IMF Assessment Report for Canada states that while OSFI is authorized to issue guidance on its supervisory expectations, it is not empowered to issue directly legally enforceable rules. "OSFI has not been delegated powers to make binding rules."⁴⁶ Furthermore, the IMF Assessment Report for Canada also includes the following comment: "Consider the scope to strengthen regulation by providing delegated powers, as are available to many regulatory authorities internationally, to issue enforceable rules by administrative means rather than through legislation"⁴⁷.

⁴⁴ IMF Assessment Report for Canada, March 2014, page 39.

⁴⁵ IMF Assessment Report for Canada, March 2014, pages 39 and 40.

⁴⁶ IMF Assessment Report for Canada, March 2014, page 42.

⁴⁷ IMF Assessment Report for Canada, March 2014, page 33.

Another possible enhancement to the Canadian legislative environment identified by the IMF, would be to consider updating the laws applying to OSFI (and provincial insurance supervisors) so that the provisions governing prudential decisions of the supervisors can be separated from national interest issues.

These comments and possible enhancements articulated by the IMF would also apply to OSFI requirements directed at actuaries serving in a financial reporting and solvency monitoring role with Federal P&C Insurers, particularly those requirements set out in the various guidelines and *OSFI's Memo to the AA*.

Comparison to Other Jurisdictions

Over the last few years, the IMF has conducted similar assessment of ICP observance for other international jurisdictions. Reports discussing the detailed findings of the assessment process for each jurisdiction are available on the IMF website. These reports are valuable to gain an international perspective and provide additional background related to the main issues raised by the IMF with regards to OSFI's observance of ICP 1.

Based on the reports published on the IMF website, Australia and France would represent two examples of insurance supervision authority that were found to be able to issue enforceable rules by administrative means and take immediate action. The report titled "Financial Sector Assessment Program Update - Australia: Insurance Core Principles – Details Assessment of Observance" published by the IMF in November 2012, explains that:

APRA⁴⁸ has the power to issue prudential standards and to conduct supervision with respect to both insurers and insurance groups. Prudential standards have the force of law, with the same legal standing as regulations. APRA has the power to enforce rules by administrative means, although its ability to impose fines autonomously is limited to breaches of FSCODA [Financial Sector (Collection of Data) Act 2001]. However, APRA does have the capacity to seek the imposition of fines through the Commonwealth Director of Public Prosecutions (DPP) and the Courts where there are breaches of legislations or prudential standards.⁴⁹

Similarly, the report titled "Financial Sector Assessment Program Update - France: Insurance Core Principles – Details Assessment of Observance" published by the IMF in June 2013, explains that:

Article L612 of the CMF [Code Monétaire Financier (Monetary & Financial Code)] also states that the ACP [Autorité de Contrôle Prudentiel (Prudential Supervisory Authority)] has all the powers needed to exercise its functions, including the powers

⁴⁸ APRA (the Australian Prudential Regulation Authority) is responsible for prudential regulation and supervision of general and life insurance companies as well as banking and parts of the superannuation.

⁴⁹ IMF, "Financial Sector Assessment Program Update – Australia: Insurance Core Principles – Detailed Assessment of Observance", November 2012, pages 33 and 34.

of supervision, powers to make administrative policing measures, and powers to issue sanctions.⁵⁰

ICP 5 - Suitability of Persons

ICP 5 is defined by the IAIS as follows:

The supervisor requires Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurer to be and remain suitable to fulfil their respective roles⁵¹.

Additionally, the following key high level requirements, defined as standards by the IAIS, are linked to ICP 5:

- 5.1 Legislation identifies which persons meet suitability requirements.
- 5.2 The Supervisor requires that in order to be suitable, Board Members, Senior Management and Key Persons in Control Functions possess competence and integrity to fulfill their roles. Significant Owners are required to have the financial soundness and integrity necessary to fulfil their roles.
- 5.3 The supervisor requires the insurer to demonstrate initially and thereafter, when requested by the supervisor, the suitability of Board Members, Senior Management, Key Persons in Control Functions and Significant Owners. The suitability requirements and the extent of review required depend on the person's position and responsibility.
- 5.4 The supervisor requires to be notified by insurers of any changes in Board Members, Senior Management, Key persons in Control Functions and Significant Owners, and of any circumstances that may materially adversely affect the suitability of its Board Members, Senior Management, Key Persons in Control Functions and Significant Owners.
- 5.5 The supervisor takes appropriate action to rectify the situation when Board Members, Senior Management and Key Persons in Control Functions or Significant Owners no longer meet suitability requirements.
- 5.6 The supervisor exchanges information with other authorities inside and outside its jurisdiction where necessary to check the suitability of Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurer⁵².

⁵⁰ IMF, "Financial Sector Assessment Program Update – France: Insurance Core Principles – Detailed Assessment of Observance", June 2013, page 24.

⁵¹ IAIS, "Insurance Core Principles, Standards, Guidance and Assessment Methodology", October 2011 (Amended October 2013), page 35.

⁵² IAIS, "Insurance Core Principles, Standards, Guidance and Assessment Methodology", October 2011 (Amended October 2013), pages 35 through 41.

Description of the Current Situation

Actuaries serving as AAs for Federally P&C Insurers would fall under the description of “key persons in control functions” and as such, ICP 5 is directly related to the actuaries’ role in solvency monitoring.

According to the ICA’s definition of “actuary”, the AA of Federal P&C Insurers must be an FCIA. As such, under federal Insurance Legislation, AAs are subject to the CIA’s Rules of Professional Conduct. In addition, OSFI’s assessment of the suitability of an AA is subject to the additional qualification requirements set out in “Section 2: Qualifications Required” of *Guideline E-15*.

Furthermore, the ICA specifies in section 329 and 624 that the CEO, chief operating officer, chief financial officer, or chief agent of a Federal P&C Insurer may not be appointed or hold the position of actuary unless authorized by OSFI.

IMF Assessment

In assessing OSFI’s insurance supervisory system, the IMF concluded that ICP 5 was “observed” by OSFI and commented that:

The ICA provides for the eligibility of Responsible Persons, which is supplemented by OSFI’s guidelines on its expectation for FRIs/branches to establish and implement assessment policies and procedures to assess suitability of persons, including the scope of persons to be assessed. OSFI generally relies on the internal processes of FRIs/branches and may require a FRI/branch to demonstrate the suitability of persons where warranted. Change in Responsible Persons (defined as a member of the Board or a Senior Officer) must be notified to OSFI. OSFI is empowered to disqualify or remove persons found not suitable to hold the relevant positions.⁵³

This assessment and all of the comments related to *ICP 5: Suitability of Persons* in the IMF Assessment Report for Canada apply to the AAs of Federal P&C Insurers.

ICP 8: Risk Management and Internal Controls

The IAIS defines ICP 8 as follows:

The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters, and internal audit⁵⁴.

⁵³ IMF Assessment Report for Canada, March 2014, page 69.

⁵⁴ IAIS, “Insurance Core Principles, Standards, Guidance and Assessment Methodology”, October 2011 (Amended October 2013), page 68.

Additionally, the following key high level requirements, defined as standards by the IAIS, are linked to ICP 8⁵⁵:

- 8.1 The supervisor requires the insurer to establish, and operate within, effective systems of risk management and internal controls.
- 8.2 The supervisor requires the insurer to have effective control functions with the necessary authority, independence and resources.
- 8.3 The supervisor requires the insurer to have an effective risk management function capable of assisting the insurer to identify, assess, monitor, manage and report on its key risks in a timely way.
- 8.4 The supervisor requires the insurer to have an effective compliance function capable of assisting the insurer to meet its legal and regulatory obligations and promote and sustain a corporate culture of compliance and integrity.
- 8.5 The supervisor requires that there is an effective actuarial function capable of evaluating and providing advice to the insurer regarding, at a minimum, technical provisions, premium and pricing activities, and compliance with related statutory and regulatory requirements.
- 8.6 The supervisor requires the insurer to have an effective internal audit function capable of providing the Board with independent assurance in respect of the insurer's governance, including its risk management and internal controls.
- 8.7 The supervisor requires the insurer to retain at least the same degree of oversight of, and accountability for, any outsourced material activity or function (such as a control function) as applies to non-outsourced activities or functions⁵⁶.

Description of the Current Situation

OSFI's risk-based Supervisory Framework identifies the following seven oversight functions, which may be required of Federal P&C Insurers, depending on the nature, size, complexity, and inherent risks associated with each insurer: financial, compliance, actuarial, risk management, internal audit, senior management, and the board. As requested by PACICC, the research paper focuses on P&C insurance companies and the actuary's role in safeguarding the solvency of P&C insurers. As a result, the research paper's review of ICP 8, and the IMF's assessment of OSFI's compliance with ICP 8, focuses on the actuarial oversight function.

As explained earlier, OSFI relies on an extensive framework of requirements relating to the role of the AA in monitoring the solvency of Federal P&C Insurers. As part of these requirements, OSFI also identifies the need for an actuarial function, responsible to the board of directors in the same way as the AA and other control functions.

The role and specific responsibilities of the AA are set out in the ICA, and further described in OSFI's *Guideline E-15*. These responsibilities include valuing the actuarial and other policy liabilities as at the end of each financial year. As explained earlier, to serve as AA for any Federal P&C Insurer, the actuary must be an FCIA and is therefore required to abide by the Rules of Professional

⁵⁵ Not all of the standards listed here are related to the actuaries' role in safeguarding the solvency of P&C insurers. These standards are included for completeness and to show the range of standards underlying ICP 8.

⁵⁶ IAIS, "Insurance Core Principles, Standards, Guidance and Assessment Methodology", October 2011 (Amended October 2013), pages 68 through 87.

Conduct of the CIA. OSFI also imposes the following additional restrictions on the selection of an AA:

- The AA is not allowed to serve as a board member for the insurer; and
- Federal P&C Insurers may not appoint the CEO, COO, or chief agent to serve as their AA, unless a special authorization is obtained, in writing, from OSFI.

In describing the role of the actuarial function within the current federal regulatory environment, the IMF Assessment Report for Canada explains that:

The actuarial function is expected to provide not only actuarial input (e.g., on pricing and product development) but also challenge to operational management (i.e., to ensure that business decisions reflect sound actuarial analysis). Detailed expectations of the actuarial function are set out in OSFI's Supervisory Framework, which identifies the role of the function as including:

- an evaluation of the design, pricing and valuation of the insurance products offered by the FRI;
- assessing the reasonableness of provisions set for policy liabilities, and the appropriateness of the process followed;
- reviewing models used to determine exposures, and the adequacy of reinsurance programs to mitigate these exposures;
- analyzing stress testing results, and the process used, to establish the adequacy of capital and capital planning for the FRFI [Federally Regulated Financial Institution] under adverse conditions; and
- reporting on the results of its work to Senior Management and the Board.

...

The emphasis on the actuarial function, which does not have to be headed by the AA, creates some risk that the role and importance of the AA will be diminished within individual FRIs, resulting in reduced focus on the AAR and other responsibilities of the AA. OSFI's oversight of the AAR process, including peer review, and its supervisory assessment of the overall adequacy of actuarial work should identify concerns in practice⁵⁷.

IMF Assessment

The IMF Assessment Report for Canada concludes that ICP 8 is "observed" by OSFI's current insurance supervisory system. As part of the comments related to their assessment of OSFI's insurance supervision system, the IMF states that:

OSFI has an extensive framework of requirements for risk management and control functions at FRIs and oversees the effectiveness of the arrangements as part of its supervision program. ... OSFI's approach also provides for a balance between ensuring appropriate stature and significance for actuarial work, supported by the

⁵⁷ IMF Assessment Report for Canada, March 2014, pages 79 and 80.

key role of the AA, and fully embedding actuarial work and decisions within the overall corporate governance framework⁵⁸.

ICP 14: Valuation

The IAIS defines ICP 14 as follows:

The supervisor establishes requirements for the valuation of assets and liabilities for solvency purposes⁵⁹.

Additionally, the following key high level requirements, defined as standards by the IAIS, are linked to ICP 14:

- 14.1 The valuation addresses recognition, derecognition and measurement of assets and liabilities.
- 14.2 The valuation of assets and liabilities is undertaken on consistent bases.
- 14.3 The valuation of assets and liabilities is undertaken in a reliable, decision useful and transparent manner.
- 14.4 The valuation of assets and liabilities is an economic valuation.
- 14.5 An economic valuation of assets and liabilities reflects the risk-adjusted present values of their cash flows.
- 14.6 The value of technical provisions and other liabilities does not reflect the insurer's own credit standing.
- 14.7 The valuation of technical provisions exceeds the Current Estimate by a margin (Margin over the Current Estimate or MOCE).
- 14.8 The Current Estimate reflects the expected present value of all relevant future cash flows that arise in fulfilling insurance obligations, using unbiased, current assumptions.
- 14.9 The MOCE reflects the inherent uncertainty related to all relevant future cash flows that arise in fulfilling insurance obligations over the full time horizon thereof.
- 14.10 The valuation of technical provisions allows for the time value of money. The supervisor establishes criteria for the determination of appropriate rates to be used in the discounting of technical provisions.
- 14.11 The supervisor requires the valuation of technical provisions to make appropriate allowance for embedded options and guarantees⁶⁰.

⁵⁸ IMF Assessment Report for Canada, March 2014, pages 80 and 81.

⁵⁹ IAIS, "Insurance Core Principles, Standards, Guidance and Assessment Methodology", October 2011 (Amended October 2013), page 122.

⁶⁰ IAIS, "Insurance Core Principles, Standards, Guidance and Assessment Methodology", October 2011 (Amended October 2013), pages 124 through 140.

Description of the Current Situation

In Canada, the federal insurance regulator, OSFI, does not generally establish the standards underlying the valuation of assets and liabilities for solvency purpose by itself. Instead, OSFI's guidelines are developed by way of a collaborative process, which involves extensive consultation with representatives of the insurance industry and other key stakeholders, as well as input from the accounting and actuarial standards setters (the Chartered Professional Accountants of Canada (CPA Canada)⁶¹ and the CIA, through the ASB). Through this consultation process, OSFI develops and continuously updates the valuation framework that is considered to be appropriate for use as a basis for regulatory solvency calculations.

The IMF Assessment Report for Canada further explains that:

- The requirements for regulatory purposes, including reporting by FRIs [Federally Regulated Insurers] to OSFI, are based closely on IFRS [International Financial Reporting Standards], which were adopted by the Canadian Accounting Standards Board with effect from 2011 for use by “publicly accountable enterprises”, which OSFI has defined in a communication in April 2008 to include all FRIs.
- IFRS standards in turn require that, for the valuation of liabilities arising on insurance contracts, where work on a final version of IFRS 4 is continuing, Canadian insurance companies (including all FRIs) use the Standards of Practice issued by the Actuarial Standards Board.
- Under the ICA, FRIs are required to prepare financial statements in accordance with generally accepted accounting principles, i.e. as issued by the Accounting Standards Board.
- The ICA also requires that the valuation of actuarial and policy liabilities that must be undertaken by the appointed actuary (AA) of an FRI shall be in accordance with generally accepted actuarial practice, i.e. the standards issued by the Actuarial Standards Board (ASB).⁶²

As a result of the process followed by OSFI, valuation standards and practices adopted by Federal P&C Insurers are driven by three key sets of requirements:

- The relevant IFRSs;
- The Standards of Practice of the ASB; and
- Any variations in these standards that OSFI requires through guidelines (in practice, there are no modifications required at this time).

This results in a particularly close alignment of the financial and regulatory reporting frameworks.

⁶¹ CPA Canada is the national organization established to support the unification of the Canadian accounting profession. The Canadian Institute of Chartered Accountants (CICA) is now part of CPA Canada.

⁶² IMF Assessment Report for Canada, March 2014, page 99.

OSFI's *Guideline E-15* is particularly relevant when it comes to describing the responsibilities of the AA under the ICA. *Guideline E-15* also sets out OSFI's expectations for the regular external peer review of certain work performed by the AA of Federal P&C Insurers.

In general, the Standards of Practice set by the ASB can be described as "principles-based". Although many of the Standards of Practice applicable to P&C insurers specify the use of a standard methodology, the approach allows for significant discretion on the part of the AA. One key example of this discretionary component of the Standards of Practice relates to the assumptions that can be selected and used by the AA. In practice, this means that to follow Standards of Practice, the AA is responsible for selecting realistic "best estimate" assumptions as well as assumptions regarding margins for adverse deviations. Although the Standards of Practice do not prescribe how this selection should be performed by the AA, they provide guidance by specifying that the selection must be appropriate to the company that is being valued and that all assumptions must be reviewed by the AA on a regular basis to ensure their continued applicability.

As a result of this significant discretionary component to the work performed by the AA of Federal P&C Insurers, the IMF comments on the importance for the regulators to have in place a strong framework of effective challenge and oversight regarding the AA's decisions. In practice, OSFI relies on a number of arrangements to satisfy this additional level of oversight, including:

- The ASB, which is responsible for the development and revisions to the professional standards applicable to the actuaries allowed to serve as AA for Federal P&C Insurers⁶³;
- The CIA, which has the power to investigate the conduct of its members and to apply sanctions as necessary.
- Regulatory expectations as defined by OSFI's *Guideline E-15*, including:
 - Requiring companies to select an AA who has appropriate qualifications;
 - Requiring the AA to submit a report on an annual basis to OSFI, prepared in accordance with the requirements described in the most recent *OSFI's Memo to the AA*;
 - Requiring the periodic peer review of the work of the AA, including submission of a formal peer review report directly to OSFI as well as to the management of the Federal P&C Insurer.
- Effective oversight by the Board and senior management of the Federally P&C Insurer. An example of the level of oversight expected through OSFI's guidelines is the annual requirement for the AA meet with and report to the directors (or the chief agent) on the company's financial position.
- Supervisory oversight by OSFI on the basis of regulatory reporting. This includes oversight reviews performed by OSFI's actuarial division and OSFI's requirement for annual DCAT reports, including some prescribed stress tests to provide further insights into the adequacy of the AA's valuation. The requirement for Federal P&C Insurers to conduct an ORSA starting in 2014 will also serve as a key component of OSFI's supervisory oversight.

⁶³ The ICA defines an actuary as an FCIA, and OSFI specifies further requirements through *Guideline E-15*.

- Requirements of the Auditing Standards Board and the CICA in relation to audit work undertaken on the financial statements of Federal P&C Insurers. Under these requirements, the auditors develop their own view of the valuation of policy liabilities with the support of actuarial specialists. It is understood that for Federal P&C Insurers audited by one of the major auditing practices, actuaries are involved to support the audit work.
- Legal protection for whistleblowing in relation to actuarial work. The IMF Assessment Report for Canada mentions that “OSFI has received and acted on occasional whistleblowing, although instances are rare and there has not been a case since the early 1990s”.⁶⁴

On an overall basis, the IMF Assessment Report for Canada evaluates OSFI’s supervisory framework with regards to ICP 14 as robust. Nonetheless, it identifies one aspect of the current framework which is currently not covered but is in place in some other countries as the direct oversight of the actuarial profession by a statutory body. However, OSFI has a process in place which allows for regular dialogue with the CIA and ASB. Through this dialogue process, OSFI can identify areas of the Standards of Practice which it thinks, based on its supervisory work, could require specific consideration for revisions by the ASB.

The AAR is a key document, relied on by OSFI to focus its supervisory work on an insurer’s actuarial financial position. The IMF Assessment Report for Canada explains that:

The ICA requires the AA to make, and the company to file with its annual return, an AAR and the DCAT on the policy liabilities and on any other matters the Superintendent may specify in a form determined by the Superintendent. The purpose of the AAR is to give OSFI a comprehensive report documenting the work done by the AA to calculate the policy liabilities. ... OSFI sends annual memorandums to both life and P&C insurers setting out requirements in relation to AARs⁶⁵.

IMF Assessment

The IMF Assessment Report for Canada concludes that ICP 14 is “largely observed” by OSFI’s current insurance supervisory system. In reaching their conclusion, the IMF includes the following comments that would be applicable to the supervision of Federal P&C Insurers:

The requirements on valuation of technical provisions and assets provide a comprehensive framework of standards, including a consistent economic basis for valuation across the balance sheet and margins for adverse deviation. While the approach is principles-based and provides for significant discretion to be exercised by the AA, it is underpinned by professional and regulatory requirements applying to the AA and a framework of oversight, peer review and audit requirements. The approach has been adapted where areas of weakness were highlighted by the financial crisis. ... OSFI had identified the need for changes to the Canadian

⁶⁴ IMF Assessment Report for Canada, March 2014, page 101.

⁶⁵ IMF Assessment Report for Canada, March 2014, page 102.

valuation of technical provisions and has supported work by the ASB in this area. It is also important that the oversight, peer review and audit requirements continue to provide a robust challenge to the assumptions and methods used by actuaries⁶⁶.

These comments of the IMF recognize the importance of the additional levels of oversight provided by consistent and well defined external peer review and audit requirements related to the valuation of P&C insurers.

[ICP 16: Enterprise Risk Management for Solvency Purposes \(page 106\)](#)

The IAIS defines ICP 16 as follows:

The supervisor establishes enterprise risk management requirements for solvency purposes that require insurers to address all relevant and material risks⁶⁷.

Additionally, the following key high level requirements, defined as standards by the IAIS, are linked to ICP 16⁶⁸:

- 16.1 The supervisor requires the insurer's enterprise risk management framework to provide for the identification and quantification of risk under a sufficiently wide range of outcomes using techniques which are appropriate to the nature, scale and complexity of the risks the insurer bears and adequate for risk and capital management and for solvency purposes.
- 16.2 The supervisor requires the insurer's measurement of risk to be supported by accurate documentation providing appropriately detailed descriptions and explanations of the risks covered, the measurement approaches used and the key assumptions made.
- 16.3 The supervisor requires the insurer to have a risk management policy which outlines how all relevant and material categories of risk are managed, both in the insurer's business strategy and its day-to-day operations.
- 16.4 The supervisor requires the insurer to have a risk management policy which describes the relationship between the insurer's tolerance limits, regulatory capital requirements, economic capital and the processes and methods for monitoring risk.
- 16.5 The supervisor requires the insurer to have a risk management policy which includes an explicit asset-liability management (ALM) policy which clearly specifies the nature, role and extent of ALM activities and their relationship with product development, pricing functions and investment management.
- 16.6 The supervisor requires the insurer to have a risk management policy which is reflected in an explicit investment policy which:

⁶⁶ IMF Assessment Report for Canada, March 2014, page 103.

⁶⁷ IAIS, "Insurance Core Principles, Standards, Guidance and Assessment Methodology", October 2011 (Amended October 2013), page 156.

⁶⁸ Not all of the standards listed here are related to the actuaries' role in safeguarding the solvency of P&C insurers. These standards are included for completeness and to show the range of standards underlying ICP 16.

- specifies the nature, role and extent of the insurer's investment activities and how the insurer complies with the regulatory investment requirements established by the supervisor; and
 - establishes explicit risk management procedures within its investment policy with regard to more complex and less transparent classes of asset and investment in markets or instruments that are subject to less governance or regulation.
- 16.7 The supervisor requires the insurer to have a risk management policy which includes explicit policies in relation to underwriting risk.
- 16.8 The supervisor requires the insurer to:
- establish and maintain a risk tolerance statement which sets out its overall quantitative and qualitative risk tolerance levels and defines risk tolerance limits which take into account all relevant and material categories of risk and the relationships between them;
 - make use of its risk tolerance levels in its business strategy; and
 - embed its defined risk tolerance limits in its day-to-day operations via its risk management policies and procedures.
- 16.9 The supervisor requires the insurer's ERM framework to be responsive to changes in its risk profile.
- 16.10 The supervisor requires the insurer's ERM framework to incorporate a feedback loop, based on appropriate and good quality information, management processes and objective assessment, which enables it to take the necessary action in a timely manner in response to changes in its risk profile.
- 16.11 The supervisor requires the insurer to perform its own risk and solvency assessment (ORSA) regularly to assess the adequacy of its risk management and current, and likely future, solvency position.
- 16.12 The supervisor requires the insurer's Board and Senior Management to be responsible for the ORSA.
- 16.13 The supervisor requires the insurer's ORSA to encompass all reasonably foreseeable and relevant material risks including, as a minimum, underwriting, credit, market, operational and liquidity risks and additional risks arising due to membership of a group. The assessment is required to identify the relationship between risk management and the level and quality of financial resources needed and available.
- 16.14 The supervisor requires the insurer to:
- determine, as part of its ORSA, the overall financial resources it needs to manage its business given its own risk tolerance and business plans, and to demonstrate that supervisory requirements are met;
 - base its risk management actions on consideration of its economic capital, regulatory capital requirements and financial resources, including its ORSA; and
 - assess the quality and adequacy of its capital resources to meet regulatory capital requirements and any additional capital needs.
- 16.15 The supervisor requires:
- the insurer, as part of its ORSA, to analyse its ability to continue in business, and the risk management and financial resources required to do so over a longer time horizon than typically used to determine regulatory capital requirements;

- the insurer's continuity analysis to address a combination of quantitative and qualitative elements in the medium and longer-term business strategy of the insurer and include projections of its future financial position and analysis of its ability to meet future regulatory capital requirements.

Description of the Current Situation

In evaluating the Canadian federal insurance supervisory system against ICP 16, the IMF reviewed a compilation of documents and guidelines issued by OSFI to define its expectations on enterprise risk management, including:

- *Corporate Governance Guideline*, which requires Federal P&C Insurers to identify the significant risks facing them, assess their potential impact and have policies in place to manage these risks effectively;
- *Guideline E-18 - Stress Testing*, which requires Federal P&C Insurers to use stress tests to address risks affecting the insurer on an institution-wide basis and consider the concentration and interaction between these risks under a stress environment;
- *Guideline A-4 – Regulatory Capital and Internal Capital Targets*, which requires Federal P&C Insurers to establish an internal target capital ratio (expected by OSFI to be at a level above the supervisory targets), based on the level of capital needed to protect policyholders and creditors with a high level of confidence; and
- *Guidelines E-19 - Own Risk and Solvency Assessment (ORSA)*, which was effective in January 2014.

In addition to these requirements, OSFI also requires Federal P&C Insurers to undertake a DCAT process to review the expected future financial condition of the insurer through a forward-looking examination and sensitivity testing of the impact of various plausible adverse scenarios on the insurer's forecasted capital adequacy. DCAT reports must be presented to the Board or Chief Agent of Federal P&C Insurers, and filed with OSFI, on an annual basis. The IMF Assessment Report for Canada explains that:

While DCAT requirements are specified by the Actuarial Standards Board, OSFI requires the preparation and submission of DCAT reports using its authority under the ICA to require a valuation by an actuary. In practice, the preparation of a DCAT report is generally accepted and complied with as part of OSFI's expectations⁶⁹.

AAs preparing DCAT reports are expected to follow the guidance set out in Section 2500 of the actuarial Standards of Practice promulgated by the ASB. In accordance with the Standards of Practice, the AA undertaking a DCAT analysis would consider a number of risk categories including: claim frequency and severity risk, policy liabilities risk, inflation risk, premium risk, reinsurance risk, investment risk, government and political issues risk, off-balance sheet items risk, and related companies risk. In addition, the DCAT report for insurers who are members of a group

⁶⁹ IMF Assessment Report for Canada, March 2014, page 107.

should also consider the additional risk arising due to this membership, by assessing related company risk (i.e., contagion risk).

OSFI's approach regarding enterprise risk management is continuously evolving. With the implementation of the ORSA Guideline, Federal P&C Insurers are expected to develop their own view of their capital needs, based on a comprehensive view of their risks. Federal P&C Insurers are required to document this view in their ORSA report, which is to be made available to OSFI.

The IMF Assessment Report for Canada explains that together, OSFI's "guidelines and the DCAT framework require FRIs to quantify risks (in parallel with ... the MCT capital framework) and the capital which they need to hold against them under a range of scenarios⁷⁰". The ORSA Guideline, which was effective January 1, 2014, builds on and adds to the existing OSFI framework of guidelines. To that extent the IMF expects that the new ORSA guideline will serve more to consolidate OSFI's risk management requirements for solvency purposes than to broaden OSFI's current approach. However, it is expected that the "ORSA Guideline will also add to the approach in some respects, such as requiring a fully documented process to underpin internal risk assessment and capital management. Furthermore, the ORSA requirement will significantly reinforce the need for FRIs [federally regulated insurers] to take their own view of overall capital needs, independent of the regulatory framework.⁷¹⁷²

IMF Assessment

The IMF Assessment Report for Canada concludes that ICP 16 is "largely observed" by OSFI's current insurance supervisory system. In reaching their conclusion, the IMF includes the following comments that would be applicable to the supervision of Federal P&C Insurers:

OSFI has an extensive set of guidelines that require FRIs to identify, measure and manage all material risks, taking into account the results of stress testing. These guidelines also require insurers to make their own evaluation of their capital needs, based on their own assessment of risks. OSFI's guideline on ORSA requirements ... consolidate and extend this framework, emphasising the need for FRIs to take their own view of overall capital needs, independent of the regulatory framework—which is critical to ensuring that OSFI has the necessary input into its own process for evaluating the individual capital adequacy of FRIs. Full implementation of the approach will take some time, even if FRIs are already working on improving their framework...⁷³

⁷⁰ IMF Assessment Report for Canada, March 2014, page 107.

⁷¹ IMF Assessment Report for Canada, March 2014, page 109.

⁷² For most insurance companies there is a multi-year time frame required to meeting the ORSA guideline.

⁷³ IMF Assessment Report for Canada, March 2014, page 109.

PART 7 - POWERS OF PROVINCIAL SUPERINTENDENTS WITH REGARDS TO RESERVING AND SOLVENCY MONITORING RELATIVE TO INTERNATIONAL SOUND PRACTICES

The requirements for P&C actuaries involved in a solvency reporting or monitoring function within a Provincial P&C Insurer are set out in the relevant provincial Insurance Legislation (e.g., *Alberta Insurance Act*, *Financial Institutions Act* (BC), *An Act Respecting Insurance* (Quebec)) of the province where the company is registered. To articulate the provincial supervisor's regulatory and supervisory expectations, in addition to what is set out in provincial Insurance Legislation, some of the provincial regulators issue their own specific additional guidance, similar to that issued by OSFI;⁷⁴ other provinces choose to adopt relevant OSFI's guidelines⁷⁵; and the remaining jurisdictions rely solely on incorporating the requirements directly into the relevant Insurance Legislation.

Part 7 of this research paper begins with an introduction to the provincial insurance supervisory environment. The paper then reviews all provincial Insurance Legislations and benchmarks them against those ICPs that are directly or indirectly relevant to the actuaries' role in the context of solvency framework.

Provincial P&C Insurers by Jurisdiction

During 2011, there were 93 Provincial P&C Insurers in Canada (including provincial automobile insurers⁷⁶). The following table illustrates the distribution of Provincial P&C Insurers registered in each province/territory as of December 31, 2011.

⁷⁴ The insurance regulator for the Province of Quebec, l'Autorité des Marchés Financiers (AMF), issues many guidelines and forms conveying the expectations of the regulator. These guidelines and forms are available on the AMF's website using the following links: <http://www.lautorite.qc.ca/en/guidelines-insurers-pro.html> and <http://www.lautorite.qc.ca/en/pc-insurance-pro.html>.

⁷⁵ For example, the insurance regulator for the Province of Alberta has adopted and issued many OSFI guidelines, including future revisions. These guidelines are available on the Alberta Treasury Board and Finance's website using the following link: <http://www.finance.alberta.ca/publications/insurance/osfi-guidelines-adopted-by-alberta.html>.

⁷⁶ Data from a January 2013 report prepared by the Solvency Forum Committee of CCIR titled "Report on Provincially chartered insurers and provincial solvency supervision framework". This report was provided by Grant Kelly of PACICC and includes 93 Provincial P&C Insurers. During the interview process, the PEI insurance regulator indicated that there are currently two Provincial P&C Insurers in PEI. These insurers are not included in the total shown here as they were not included in the data provided by PACICC.

Provincial P&C Insurers by Jurisdiction ⁷⁷													
	AB	BC	MB	NB	NL	NT	NS	NU	ON	PE ⁷⁸	QC	SK	YT
Insurers	7	6	2	5	2 ⁷⁹	0	0	0	11 ⁸⁰	2	49	7	0
Public Auto Insurers	0	1	1	0	0	0	0	0	0	0	1	1	0
Total	7	7	3	5	2	0	0	0	11	2	50	8	0

Periodic Reviews of Provincial Insurance Legislation

As described previously, the ICA is subject to a “sunset clause” designed to ensure that the legislation remains current and effective. This clause requires OSFI to undertake a complete review of the ICA every five years and recommend amendments for consideration by the Minister.

Similarly, some of the provincial insurance supervisors who participated in the interviews pointed out the periodic review clause applicable to the Insurance Legislation (e.g., Alberta *Insurance Act*, *Financial Institutions Act* (British Columbia), *An Act Respecting Insurance* (Quebec)) for their respective jurisdictions. The review process typically includes a consultation process with industry stakeholders to ensure that a comprehensive list of issues is brought forward and included in the regularly scheduled revisions to the legislation.

The following table describes the periodic review clause applicable for each of the provincial Insurance Legislation as well as the expected timing for the next review.

Province/Territory	Periodic Review Clause
Alberta	There is not a prescribed time frame for the review and revision of the Insurance Act. Recent amendments came into force July 1, 2012 and July 1, 2014. The Superintendent has a process in place to ensure all required updates are documented for future amendments.
British Columbia	The FIA is subject to a periodic review clause mandating that the legislation be reviewed every ten years (pursuant to section 294). The scope of this periodic review is at the discretion of the Minister

⁷⁷ Data from a January 2013 report prepared by the Solvency Forum Committee of CCIR titled “Report on Provincially chartered insurers and provincial solvency supervision framework”. This report was provided by Grant Kelly of PACICC. Note, these numbers vary somewhat from those provided by the provincial regulators. According to PACICC’s data, there are also 46 Farm Mutual Companies operating in either Ontario (44) or Saskatchewan (2). This table does not include Farm Mutual Companies.

⁷⁸ Data for PEI provided by the provincial regulator during the interview process and is not included in the total provided by PACICC.

⁷⁹ One of the two Newfoundland Provincial P&C Insurers will be moving to OSFI regulation following its acquisition by a federally regulated P&C insurer in 2014.

⁸⁰ It is PACICC’s understanding that Ontario is exiting the solvency regulation function and as a result, all of the Ontario Provincial P&C Insurers must find a new regulator. PACICC believes that Ontario Provincial P&C Insurers affected most will migrate to OSFI.

	of Finance. The next periodic review of the FIA is set to begin before the end of 2014.
Manitoba	Current version effective September 1st, 2014.
New Brunswick	Current version in force since Jul 1, 2013.
Newfoundland and Labrador	Current version in force since Dec 10 th , 2013.
Northwest Territories	Current version has been in effect since 1988. No sunset clause requirements.
Nova Scotia	Current version in force since Apr 1 st , 2013.
Nunavut	Current version has been in effect since 1999. No plans to update to the Nunavut <i>Insurance Act</i> in the near future and no sunset clause requirements.
Ontario	Last amendment was effective in 2014.
Prince Edward Island	The current version has been in force since Dec 7 th , 2012. The PEI superintendent mentioned during the interview process that they do not feel that there is an urgency to update the Act.
Quebec	At least once every five years, a report to the National Assembly on the application of the Act and recommendations on the expediency of maintaining or amending the provisions of the Act must be made. ⁸¹ The next update is expected for 2015 or late in the Fall of 2014.
Saskatchewan	The last update was posted on Oct 3, 2012. They are looking into this [actuarial] area with the 2014/2015 rewrite of <i>The Saskatchewan Insurance Act</i> .
Yukon	The current version has been in force since Dec 6, 2012.

Some provincial Superintendents have stated during the interview process that they are currently in the process of reviewing the ICPs. Other provincial Superintendents, including provinces who are members of the IAIS, have reviewed the ICPs over the past few years and have drafted their most recent legislative amendments, guidelines and supervision framework to reflect their adherence to the principles and guidance published by international bodies such as the IAIS.

Approach to Provincial Solvency Supervision

In 2008, PACICC retained Dr. Norma Neilson to benchmark solvency supervisory systems applicable to Federal P&C Insurers and Provincial P&C Insurers against the *IAIS Common*

⁸¹ Amendments to the Insurance Act can be proposed at any time and adopted by the Quebec National Assembly if necessary.

Structure for the Assessment of Insurer Solvency. Dr. Neilson's study concluded that OSFI was the only Canadian prudential regulator providing both sufficient power and flexibility to be in line with the international sound practices identified by the IAIS⁸². In reviewing the provincial insurance supervisory systems in place at the time, it was found that most provinces fell short of the international standards, although to varying degrees. In Dr. Neilson's study, the provinces of Alberta, British Columbia, and Quebec were found to be closest to meeting the international standards, with the other jurisdictions exhibiting varying degrees of deficiencies. Looking at international requirements related to the actuaries, this description would largely still hold in the 2014 Canadian prudential regulation environment. However, it is important to note that some provinces have reviewed and/or updated their supervisory framework and/or their Provincial Insurance Act since Dr. Neilson conducted her study, in order to meet the current IAIS ICPs. Due to these changes, Dr. Neilson's conclusions would no longer apply for some provinces.

Significant resources are required for regulatory authorities to maintain and enforce a prudential supervision system meeting the international standards. For provinces that have few or no Provincial P&C Insurers, this is even more difficult.

Dr. Neilson identified two options that could be available to provinces needing to address specific areas of regulatory deficiency:

- The province can elect to restrict their activities solely to regulating market conduct for insurers, and rely on the federal insurance regulator to undertake financial solvency regulation for provincially licensed insurers. In practice, this could require local insurers to seek a federal license.
- The province could provide the additional resources needed to bring its system of solvency supervision up to the standards of the International Association of Insurance Supervisors, and the practices of Canada's federal insurance regulator⁸³.

Some provinces, including Ontario and Nova Scotia, have recently decided to adopt the first approach. FSCO commented in an email response to the survey conducted for this research paper that the 2013 Ontario Budget included a note on the government's initiative to review and update the *Insurance Act*. The 2013 Budget indicated that the government intended to "propose amendments to relevant legislation to require all insurance companies doing business in Ontario, with the exception of the insurers that are members of the Fire Mutuals Guarantee Fund, to be incorporated in jurisdictions where solvency is regulated in accordance with modern international standards." PACICC also mentioned that the Nova Scotia regulator recently informed them that all P&C insurance companies that were previously regulated by Nova Scotia have now been transferred to federal supervision as these companies have become Federal P&C Insurers.

Other provinces, such as those with a significant number of Provincial P&C Insurers (e.g. Alberta, British Columbia and Quebec), have chosen the second approach. These jurisdictions are currently in the process of reviewing their Insurance Legislation to be in agreement with the IAIS standards.

⁸² Note that the IMF Assessment Report for Canada, released in March 2014 also commented that "the Canadian regulatory regime for FRIs [federally regulated insurers] has a high level of observance with the ICPs, supported by robust prudential supervision by OSFI."

⁸³ Dr. Norma L. Neilson, "Evaluating Federal and Provincial Solvency Standards in Canada", *Journal of Insurance and Risk Management*, Vol. 76 (4), January 2009, page 53.

Some of the provincial supervisors who participated in the interview process mentioned another option that has been implemented in some Canadian jurisdictions. Under this third option, the provincial regulator can enter into a service agreement to delegate and transfer the regulatory supervision functions for all or some of its Provincial P&C Insurers to another provincial supervisor with a regulatory system found to be in close agreement with the IAIS standards.

The remaining jurisdictions either do not perform any insurance supervisory functions as they currently do not have any Provincial P&C Insurers, or they are currently evaluating how to address any known deficiencies. Jurisdictions that are currently in the evaluation stages recognize that this may be a long and slow process as they do not currently see these deficiencies as a main priority due to the limited number and relative size of Provincial P&C Insurers that would be affected by changes to the current Insurance Legislation.

Consistency of Solvency Regulation and Actuarial Requirements across Canadian Jurisdictions

Members of the CIA committees who participated in the survey regarding possible enhancements to provincial Insurance Legislation in relation to the role and responsibilities of actuaries serving in a financial reporting and solvency monitoring function identified improvements to the consistency of Insurance Legislation across all Canadian jurisdictions as a key consideration. Although financial reporting requirements have largely been harmonized for federally and provincially regulated insurance companies operating in Canada (with all insurers reporting their financial results using the same P&C-1⁸⁴ statements), the requirements applicable to the actuaries serving in financial reporting and solvency monitoring roles still vary widely between jurisdictions.

In her 2010 article, Dr. Neilson stated: “Overall, the maintenance of a level playing field in the regulation of financial solvency and corporate governance among all insurance companies in Canada is an important principle of fairness.⁸⁵” Dr. Neilson also commented that any material deviation in the quality of solvency regulation between Federal P&C Insurers and Provincial P&C Insurers could potentially create two classes of insurers, triggering PACICC to demand a risk premium for member insurers who are not subject to a level of solvency supervision meeting international standards. Variation in actuarial requirements applicable to Federal P&C Insurers and Provincial P&C Insurers could also be seen to create two classes of insurers for solvency regulation purposes.

Review of Provincial Insurance Legislation

The following sections review each of the provincial Insurance Legislations and benchmark them against those ICPs that are directly or indirectly relevant to the actuaries’ role in the context of solvency framework. The description of each ICP, including the related standards issued by the IAIS, is provided in Part 6 of this research paper. Similar to Part 6 and consistent with the scope of

⁸⁴ P&C-2 for Canadian branches of Foreign Insurance Companies.

⁸⁵ Dr. Norma L. Neilson, “Evaluating Federal and Provincial Solvency Standards in Canada”, *Journal of Insurance and Risk Management*, Vol. 76 (4), January 2009, page 53.

this research paper, only those requirements related to the actuaries are addressed for each province and each ICP.

The review begins with the two provinces who are active members of the IAIS (i.e., BC and Quebec). The review of the other provinces and territories follows in alphabetical order.

British Columbia (BC)

ICP 1 – Objectives, Powers and Responsibilities of the Supervisor

There are two primary legislations that set out requirements for Provincial P&C Insurers in BC⁸⁶ – the *Insurance Act* and the *Financial Institutions Act (FIA)*. The *Insurance Act* addresses contractual requirements, matters regarding the formation of insurance companies in BC, and other contractual aspects. The *FIA* sets out the regulatory framework applying to financial institutions. For the purpose of this research paper, *FIA* is the applicable primary legislation.

The authority responsible for insurance supervision in BC is defined in Part 7 of the *FIA*. In addition, the Financial Institutions Commission of BC (FICOM) website (BC website) has the following statement regarding the objectives of the insurance regulation and the responsibilities of the supervisor, which are not explicitly stated in the *FIA*:

The Financial Institutions Commission is responsible for the day-to-day regulation of private sector insurers operating in British Columbia. Our responsibilities include.

- ensure that insurers are properly authorized;
- supervise insurers and address solvency concerns with their operations;
- address statutory market conduct issues;
- maintain a timely and efficient registration system for insurers and captive insurance companies;
- work with other jurisdictions to effectively deal with cross jurisdictional regulatory problems.⁸⁷

Part 4 – Corporate Governance, Division 2.1 – Actuaries – Insurance Companies and Part 7 – Administration of the Regulation of Financial Institutions, Division 1 – Financial Institutions Commission gives the power to FICOM to enforce rules stated in the *FIA*; however, it does not give them the powers to issue and enforce rules by administrative means and to take immediate action thus diverging from international best practice. Nevertheless, as part of its regulatory and supervisory practice, FICOM issues guidelines, bulletins, and other information documents, which are posted on the BC website. While these do not have the force of law, the Canadian insurance market is generally responsive to supervisory expectations through moral suasion.

⁸⁶ Note that the Insurance Corporation of British Columbia (ICBC) is a crown corporation and not covered under the scope of this research paper.

⁸⁷ FICOM. Accessed September 3, 2014. <http://www.fic.gov.bc.ca/index.aspx?p=fid/index#ins>

Although the *FIA* does not explicitly state that the principal objective of insurance supervision is to promote the maintenance of a fair, safe and stable insurance sector for the benefit and protection of the policyholders, in March 2014, FICOM released a report titled “Guide to Intervention – BC Property and Casualty Insurers” (the Report). The Report states the following:

Part of FICOM’s mandate is to protect the public from undue harm resulting from an insolvency. FICOM conducts periodic risk-based assessments of the insurers it regulates in order to identify at an early stage, potential concerns that may adversely impact the insurer. Depending on the nature of the concern, FICOM may initiate corrective action or otherwise intervention.⁸⁸

Possible Enhancements

Possible enhancements on which PACICC might consider commenting include:

- a) Incorporating the objectives of FICOM, akin to assertions found on the BC regulator’s website, into the *FIA*; and
- b) Establishing explicit provisions in the *FIA* giving the power to the supervisory authority to issue legally enforceable guidelines and rules, and to issue penalties for non-compliance.

ICP 5 – Suitability of Persons

Readers are referred to Part 5 that discusses the definition of the actuary in each provincial Insurance Legislation.

Part 4 – Corporate Governance, Division 2.1 – Actuaries – Insurance Companies of the *FIA* discusses the notification and revocation rules and requirements as they pertain to the suitability of persons to serve as actuary for a BC Provincial P&C Insurer.

Possible Enhancements

To improve the consistency across Canadian jurisdictions and across insurance entities, PACICC might consider commenting on possible enhancements to the definition of the term “actuary” in the *FIA* to include the following conditions:

- a) An FCIA in good standing;
- b) Meeting any additional qualification requirements defined by the CIA; and
- c) Meeting any additional qualification requirements defined by the provincial authority responsible for insurance supervision.

⁸⁸ FICOM, “Guide to Intervention – March 2014 – BC Property and Casualty Insurers”. Accessed September 3, 2014. http://www.fic.gov.bc.ca/pdf/insurance_bulletins/GuidetoInterventionP&C.pdf

ICP 8 – Risk Management and Internal Controls

The role of the AA is fully embedded in the decision making process of the Provincial P&C Insurers operating in BC. Part 4, Division 2.1 – Actuaries – Insurance Companies, of the *FIA* discusses actuaries' qualification requirements, rules of appointment and revocation, responsibilities and reporting requirements. Specifically, Section 126.27 of the *FIA* states the following:

- (1) The directors or, where the directors so choose, the audit committee of the insurance company must meet with the actuary of the company at least once during each financial year.
- (2) At the meeting, the actuary must report, in accordance with generally accepted actuarial practice and any change or direction made by the commission under section 126.23,
 - (a) on the financial position of the insurance company, and
 - (b) if directed to do so by the commission, the expected future financial condition of the company.⁸⁹

In addition, Section 126.28 states,

The actuary of an insurance company must report in writing to

- (a) the directors, president and treasurer of the insurance company, and
- (b) the superintendent

any matters that have come to the actuary's attention in the course of carrying out the actuary's duties that, in the actuary's opinion,

- (c) have material adverse effects on the financial condition of the insurance company, and
- (d) require rectification.⁹⁰

Possible Enhancements

At the time of this research paper, no additional enhancements have been identified for this ICP as it relates to the actuaries' role in safeguarding the solvency of P&C insurers.

ICP 14 – Valuation

The requirements for actuarial valuation are clearly specified in the *FIA*. The *FIA* has a section specific to actuaries titled *Division 2.1 – Actuaries – Insurance Companies*. It sets out the following requirements:

⁸⁹ BC *FIA*.

⁹⁰ BC *FIA*.

126.23 (1) The actuary of an insurance company must value

- (a) the actuarial and other policy liabilities of the company as at the end of a financial year, and
- (b) any other matter specified in a direction made by the commission.

(2) The actuary's valuation must be in accordance with generally accepted actuarial practice, with such changes as may be specified in an order by the commission and any additional directions that may be made by the commission.

...

126.26 (1) The actuary of an insurance company must, not less than 21 days before the date of the annual general meeting of the members of the company, make a report to them on the valuation made under section 126.23 and on any other prescribed matter.

(2) In each report required under subsection (1), the actuary must state whether, in the actuary's opinion, the annual financial statement presents fairly the results of the valuation made under section 126.23.⁹¹

It also sets out additional criteria giving FICOM the right to appoint their own actuary to value the company's policy liabilities:

126.24 (1) The commission may appoint an actuary to value the matters referred to in section 126.23 (1) (a) or (b) if the commission is of the opinion that the appointment is necessary.⁹²

In addition, the BC website contains a list of guidelines that FICOM has issued or adopted from OSFI. These guidelines apply to all BC Provincial P&C Insurers. FICOM also indicated that they have adopted OSFI's *Guideline E-15* in the fall of 2014, subject to a few modifications designed to ensure that the guideline is suitable for the size, scale and complexity of the Provincial P&C Insurers licensed in BC.

FICOM also mentioned that, over the past few years, a formal peer review process has only been requested by FICOM on as needed basis and FICOM did not experience any compliance issues in this regard. Readers should refer to Part 6 of this research paper for the importance of OSFI's *Guideline E-15* to the actuarial work.

Possible Enhancements

If the second possible enhancement identified in relation to ICP 1 is implemented by BC, the guidelines issued by FICOM would be legally enforceable and FICOM would be able to issue penalties for non-compliance.

⁹¹ BC FIA.

⁹² BC FIA.

ICP 16 – Enterprise Risk Management for Solvency Purposes

As mentioned previously, FICOM has adopted and issued a number of OSFI Guidelines applicable to all BC Provincial P&C Insurers, which are posted on the BC website, including partial adoption of *Guideline E-18*. The main difference in the requirements stemming from *Guideline E-18* between BC and OSFI is the frequency of the analysis – in BC, there is no requirement for an annual DCAT, instead, it is requested on as needed basis.

In addition, provision 126.23(1)(b) of the *FIA*, allows FICOM to request the company's actuary to value "any other matter specified in a direction made by the commission."⁹³ In addition, FICOM stated that they adopted OSFI's *Corporate Governance Guideline* in September 2013, as well as both *Guideline E-19* and *Guideline A-4* as of February 12, 2014.

Readers are referred to Part 6 of this research paper for more information regarding the details and importance of the above guidelines.

Possible Enhancements

If the second possible enhancement identified in relation to ICP 1 is implemented by BC, the guidelines issued by FICOM would be legally enforceable and FICOM would be able to issue penalties for non-compliance.

Quebec

The AMF actively supervises all insurers licensed to conduct business in the Province of Quebec, both from market conduct and solvency perspectives. For insurers incorporated in other Canadian jurisdictions, AMF may take into consideration the supervisory functions performed by the regulator in the home jurisdiction of the insurer, but nonetheless, every insurer licensed to do business in Quebec is subject to a detailed analysis by the AMF of financial (Annual Return and MCT) and actuarial (AAR and DCAT) information.

ICP 1 – Objectives, Powers and Responsibilities of the Supervisor

There are two primary legislations that set out requirements for Provincial P&C Insurers in Quebec – an *Act Respecting Insurance (Insurance Act)* and *An Act Respecting the Autorité des Marchés Financiers (AMF Act)*. The *Insurance Act* addresses corporate existence, powers and functions of insurance companies, as well as setting out the supervisory parameters. The *AMF Act* sets out the powers and responsibilities of AMF.

Chapter II, Division I – Mission of the *AMF Act* clearly defines the authority responsible for insurance supervision in Quebec. It states:

The mission of the Authority is to

⁹³ BC *FIA*.

- (1) provide assistance to consumers of financial products and services, in particular by setting up consumer-oriented educational programs on financial products and services, processing complaints filed by consumers and giving consumers access to dispute-resolution services;
- (2) ensure that the financial institutions and other regulated entities of the financial sector comply with the solvency standards applicable to them as well as with the obligations imposed on them by law with a view to protecting the interests of consumers of financial products and services, and take any measure provided by law for those purposes;
- (3) supervise the activities connected with the distribution of financial products and services, administer the rules governing eligibility for and the carrying on of those activities, and take any measure provided by law for those purposes;
- ...
- (5) see to the implementation of protection and compensation programs for consumers of financial products and services and administer the compensation funds set up by law.⁹⁴

Section 8 of the *AMF Act* also states the following regarding the objectives of AMF:

The Authority shall perform its functions and exercise its powers in a way as to:

- (1) foster the confidence of the public and of the business community as regards financial institutions and practitioners in the financial sector as regards solvency and the competence of agents, advisers, brokers, representatives and other practitioners in the financial sector;
- (2) promote the availability of high-quality, competitively priced financial products and services for individuals and enterprises in all regions of Quebec;
- (3) see to the establishment of an effective and efficient regulatory framework that promotes the development of the financial sector and facilitates innovative management and commercial practices;
- (4) grant the public and the business community access to reliable, accurate and complete information on the financial institutions and practitioners in the financial sector and on the financial products and services offered;
- (5) protect consumers against unethical, abusive or fraudulent practices and give individuals and enterprises access to various dispute resolution mechanisms.⁹⁵

⁹⁴ Quebec *AMF Act*.

⁹⁵ Quebec *AMF Act*.

Possible Enhancements

AMF is administratively empowered to issue policy guidance to articulate its regulatory and supervisory expectations as a complement to the legislative framework. Although the various guidance documents issued by the AMF do not have the force of law, they set out the AMF's expectations and all P&C Insurers licensed in the province of Quebec are expected to comply with these expectations on a voluntary basis. Nonetheless, as explained in the IMF Report:

Current international best practice is for supervisors to be empowered to issue directly legally enforceable rules/standards via administrative means without going through the parliamentary process, in accordance with the parameters specified in the primary legislation. This allows the supervisor to respond in a timely manner to emerging developments and risks while retaining the capacity to articulate its supervisory expectation on issues that are difficult to be hardwired in law via guidance.⁹⁶

As such, PACICC could consider commenting on the possibility of establishing explicit provisions in the *AMF Act* or the *Insurance Act* to give AMF the authority to issue legally enforceable guidelines and rules, and to issue penalties for non-compliance.

ICP 5 – Suitability of Persons

Readers are referred to Part 5 for a discussion of the definition of the actuary in each provincial Insurance Legislation.

Division III.1 – Actuary of the *Insurance Act* discusses the notification and revocation rules and requirements as they pertain to the suitability of persons to serve as actuary to Quebec Provincial P&C Insurers.

Possible Enhancements

To improve the consistency across Canadian jurisdictions and across insurance entities, PACICC might consider commenting on possible enhancements to the definition of the term “actuary” as included in the *Insurance Act* to incorporate the following conditions:

- a) An FCIA in good standing;
- b) Meeting any additional qualification requirements defined by the CIA; and
- c) Meeting any additional qualification requirements defined by the provincial authority responsible for insurance supervision.

ICP 8 – Risk Management and Internal Controls

The role of the AA is fully embedded in the decision making process of the P&C insurance companies operating in Quebec. Division III.1 – Actuary, of the *Insurance Act* discusses actuaries'

⁹⁶ IMF Assessment Report for Canada, March 2014, pages 39 and 40.

qualification requirements, rules of appointment and revocation, responsibilities and reporting requirements. Specifically, Section 298.13 of the *Insurance Act* states the following:

The actuary shall prepare, before the end of each fiscal year, a study concerning the current financial position of the insurer. He shall send a copy to the board of directors, to the auditor and, where he so requests, to the Authority.

At the request of the Authority, the study shall also concern the expected future financial condition of the insurer, and shall describe the potential financial repercussions of the insurer's activities.

The actuary shall meet with the board of directors to present his findings to it. Instead of meeting the actuary, the board of directors may ask that he present his findings to the audit committee.⁹⁷

In addition, Sections 298.11 and 298.12 state,

The actuary shall, if he becomes aware in the course of his duties of any fact, transaction or situation that, in his opinion, has or is likely to have a material adverse effect on the financial condition of the insurer, draft a detailed report thereof. He shall forward a copy of the report to the chief executive officer of the insurer or to the person who carries out the duties of that office.

The actuary shall, at the same time, forward a copy of the report to the board of directors and to the auditor.

Where the actuary is of the opinion that no suitable corrective action has been taken within a reasonable time, he shall send to the Authority a copy of his report together with a description of the events that have occurred since the drafting of the report and any other information he considers relevant.⁹⁸

Furthermore, the AMF's *Financial Institutions Supervisory Framework – Surintendance de l'encadrement de la solvabilité – 2014 (AMF Framework)* defines "actuarial services" of an insurer as one of the "independent supervisory function", responsible among other things for:

- carrying out the work of the designated actuary as required by legislation, including assessing the provisions and reserves it considers sufficient to ensure sound and prudent management as well as the appropriateness of the processes followed;
- analyzing and establishing the nature and pricing of the insurance products offered by the institution;
- analyzing and determining exposures and the adequacy of reinsurance programs;
- performing stress testing, and determining the process for establishing the adequacy of capital and capital planning;
- reporting on the results of its work to senior management and the Board⁹⁹.

⁹⁷ Quebec *Insurance Act*.

⁹⁸ Quebec *Insurance Act*.

⁹⁹ *AMF Framework*.

Possible Enhancements

At the time of this research paper, no possible enhancements have been identified for this ICP as it relates to the actuaries' role in safeguarding the solvency of P&C insurers.

ICP 14 – Valuation

The requirements for actuarial valuation are clearly specified in *Division III.1 – Actuary* of the *Insurance Act*. Specifically, it sets out the following requirements:

298.13. The actuary shall prepare, before the end of each fiscal year, a study concerning the current financial position of the insurer. He shall send a copy to the board of directors, to the auditor and, where he so requests, to the Authority.

At the request of the Authority, the study shall also concern the expected future financial condition of the insurer, and shall describe the potential financial repercussions of the insurer's activities.

The actuary shall meet with the board of directors to present his findings to it. Instead of meeting the actuary, the board of directors may ask that he present his findings to the audit committee.

298.14. The actuary shall prepare, at the end of each fiscal year, a report establishing and presenting the provisions and reserves considered sufficient to ensure sound and prudent management. The report must include any information required by the Authority.

The insurer must, on request, forward a copy of the report to the Authority.

The report must be accompanied by the actuary's provisions and reserves valuation certificate. The certificate must be appended to the annual statement of the insurer.

...

298.16. The actuary shall apply generally accepted actuarial practice. He shall, however, take into account any changes made thereto by the Authority in respect of the insurer.¹⁰⁰

It also sets out additional criteria giving AMF the right to appoint its own actuary to value the company's policy liabilities:

298.15. The Authority may, at any time, require that a study of any question, such as the valuation of the provisions and reserves and the financial position of the insurer,

¹⁰⁰ Quebec *Insurance Act*.

be conducted in the manner and within the time limit it indicates. The actuary shall transmit the results of the review to the Authority within the allotted time.

The Authority may designate another actuary to conduct such a review.¹⁰¹

The AMF website contains a list of guidelines that AMF has issued¹⁰². These guidelines apply to all P&C Insurers licensed to do business in the province of Quebec. *Guideline Governing Integrity and Competency Criteria* provides additional qualification criteria for the Appointed Actuary, however, there is currently no peer review requirement for Provincial P&C Insurers licensed in Quebec. Nevertheless, provisions 298.15 and 303 of the *Insurance Act* allow AMF to order special valuations if needed. Section 303 states:

303. Every person acting as an insurer must make to the Authority prompt and explicit answer to any request from the Authority for information respecting his insurance transactions.

In addition to the statements required by this Act, every insurer shall furnish, at the request of the Authority, on the dates and in the form fixed by the Authority, the additional statements and information it considers necessary to determine whether the insurer is complying with this Act or the regulations.¹⁰³

AMF commented that objectivity is an important condition requirement under ICP standard 14.3 vis-à-vis the reliability of valuation, and as the standard stands, it can be achieved through various means, one of them being an independent review. Based on the regulatory regime in place in Quebec (*Insurance Act*, *AMF Act*, guidelines, instructions and notices) and the AMF Framework, the AMF feels that they meet the expectations with respect to ICP 14 without systematically requiring peer review of actuarial work.

During the interview process, AMF mentioned that with a large community of actuaries working in insurance supervision and market conduct roles at AMF, the peer review process is not considered by AMF to be a necessary requirement for all Provincial P&C Insurers licensed in Quebec. AMF's actuaries perform a detailed review of the AARs and DCAT reports received from Provincial P&C Insurers on a regular basis. At a minimum, a full review (including on-site visits and reviews) is completed by AMF actuaries once every three years for Provincial P&C Insurers licensed in Quebec. In addition, the risk profile of each insurer operating in Quebec is ranked on an annual basis by AMF, based on an internally developed system. The actuarial reports (AAR and DCAT) of insurers found to have a higher risk ranking are subject to more frequent detailed reviews (typically on an annual basis).

Possible Enhancements

This research paper recognizes that AMF meets the expectations with respect to ICP 14 without systematically requiring peer review of actuarial work.

¹⁰¹ Quebec *Insurance Act*.

¹⁰² AMF. Accessed September 3, 2014. <http://www.lautorite.gc.ca/en/insurance-guidelines-pro.html>

¹⁰³ Quebec *Insurance Act*.

There are however, a number of benefits associated with the implementation of regular external peer review, including providing:

- A source of independent advice to the AA;
- A means of consulting with other knowledgeable actuaries regarding best practices and the range of current approaches used in the industry;
- An additional source of professional education;
- A robust challenge to the assumptions and methods used by actuaries, which could be particularly valuable given that the approach relied on by actuaries is principles-based and provides for significant discretion to be exercised by the AA; and
- An additional level of oversight related to the valuation of P&C insurers.

Recognizing the additional benefits that may be gained through regular external peer review, PACICC could consider commenting on the possibility for AMF to consider implementing such a requirement for Provincial P&C Insurers and, if the possible enhancement identified in relation to ICP 1 is implemented by Quebec, the Superintendent would have the authority to issue such guideline as a legally enforceable guideline, and to issue penalties for non-compliance.

ICP 16 – Enterprise Risk Management for Solvency Purposes

AMF has issued a number of guidelines applicable to all Quebec Provincial P&C Insurers, which are posted on the AMF website. *Stress Testing Guideline, Governance Guideline, and Integrated Risk Management Guideline* are similar to *Guideline E-18, Guideline E-19, Guideline A-4, and the Corporate Governance Guideline*.

In addition, provisions 298.13, 298.15 and 303 of the *Insurance Act* allow AMF to order special valuations, including DCAT analysis, if needed.

Possible Enhancements

If the possible enhancement identified in relation to ICP 1 is implemented by Quebec, the guidelines issued by AMF would be legally enforceable and AMF would be able to issue penalties for non-compliance.

Alberta

ICP 1 – Objectives, Powers and Responsibilities of the Supervisor

The primary legislation that defines the authority responsible for insurance supervision in Alberta is the *Insurance Act*. The Alberta *Insurance Act* does not explicitly define who is responsible for insurance supervision in the province and it does not explicitly define the objectives of insurance supervision. However, the Alberta Treasury Board and Finance website (Alberta website) states the following:

The Office of the Superintendent of Insurance regulates and creates policy for the insurance market in the province to ensure that Albertans have affordable access to

the insurance coverage they require, by monitoring the effectiveness of the market, and responding to the needs of the province and its citizens.¹⁰⁴

The Superintendent also supervises the solvency of Alberta Provincial P&C Insurers.¹⁰⁵

In addition, the Minister of Finance Directive No. 06/01 issued in 2001 states that:

Pursuant to section 791(1) of the Insurance Act, I, ..., Minister of Finance, delegate to the Superintendent of Insurance all my powers, duties and functions conferred or imposed on me as Minister of Finance under the Insurance Act and the regulations except:

- (a) Sections 54, 55, 155, 264, 791, 792, 801, 806(3) to (7), 816, 817 and 819 of the Insurance Act;
- (b) Section 13(2) of the Insurance Councils Regulations; and
- (c) The powers, duties and functions delegated to me by the Alberta Insurance Council, the Life Insurance Council, the General Insurance Council and the Insurance Adjusters' Council.¹⁰⁶

The *Insurance Act* states that “the Superintendent may issue guidelines and interpretation bulletins respecting the interpretation or application of this *Act* or any one or more regulations under this *Act*.”¹⁰⁷ The Alberta website has a summary of all of the OSFI Guidelines adopted by Alberta, as well as the Insurance Bulletins and Notices issued by the Superintendent.

Although the use of guidelines offers an advantage of flexibility and responsiveness to new developments due to less stringent processes, they do not give the Superintendent the power to enforce the rules and policies described in the guidelines or to take immediate action, as required by the international best practice. However, while these do not have the force of law, the Canadian insurance market is generally responsive to supervisory expectations through moral suasion.

Possible Enhancements

- a) The first possible enhancement on which PACICC might consider commenting on relates to the incorporation of a definition of the authority responsible for insurance supervision in the province and its objectives, akin to assertions found on the Alberta Treasury Board and Finance website, into the *Insurance Act*. In addition, once the authority is clearly defined, it would be beneficial to ensure that the Minister of Finance Directive regarding delegation of powers, duties and functions is updated on a regular basis and to have clarity between the use of the terms “Minister” and “Superintendent” within the *Insurance Act*.
- b) The Alberta Superintendent is administratively empowered to issue policy guidance to articulate its regulatory and supervisory expectations as a complement to the legislative framework.

¹⁰⁴ Alberta Treasury Board and Finance. Accessed September 5, 2014.

<http://www.finance.alberta.ca/business/insurance/index.html>

¹⁰⁵ Alberta Treasury Board and Finance. Accessed September 5, 2014.

<http://www.finance.alberta.ca/publications/insurance/overview.html>

¹⁰⁶ Alberta Treasury Board and Finance. Accessed October 27, 2014.

http://www.finance.alberta.ca/publications/insurance/minoffin_directive_0601.pdf

¹⁰⁷ Alberta *Insurance Act*.

Although the various guidance documents issued by the Alberta Superintendent do not have the force of law, they set out the Superintendent's expectations and all Alberta Provincial P&C Insurers are expected to comply with these expectations on a voluntary basis. Nonetheless, as explained in the IMF Report:

Current international best practice is for supervisors to be empowered to issue directly legally enforceable rules/standards via administrative means without going through the parliamentary process, in accordance with the parameters specified in the primary legislation. This allows the supervisor to respond in a timely manner to emerging developments and risks while retaining the capacity to articulate its supervisory expectation on issues that are difficult to be hardwired in law via guidance.¹⁰⁸

Another possible enhancements on which PACICC might consider commenting on is regarding the establishment of explicit provisions in the *Insurance Act* giving the power to the supervisory authority to issue legally enforceable guidelines and rules, and to issue penalties for non-compliance.

ICP 5 – Suitability of Persons

The reader is referred to Part 5 of this research paper for a discussion of the definition of the actuary in each provincial Insurance Legislation.

In addition, Subpart 9 – Actuaries of the *Insurance Act* discusses the notification and revocation rules and requirements as they pertain to the suitability of persons to perform actuarial duties.

Possible Enhancements

To improve the consistency across Canadian jurisdictions and across insurance entities, PACICC might consider commenting on possible enhancements to the definition of the term “actuary” in the *Insurance Act* to include the following three conditions:

- a) An FCIA in good standing¹⁰⁹;
- b) Meeting any additional qualification requirements defined by the CIA; and
- c) Meeting any additional qualification requirements defined by the provincial authority responsible for insurance supervision.

ICP 8 – Risk Management and Internal Controls

The role of the AA is fully embedded in the decision making process of the Provincial P&C Insurers operating in Alberta. Subpart 9 – Actuaries, of the *Insurance Act* discusses actuaries' qualification

¹⁰⁸ IMF Assessment Report for Canada, March 2014, pages 39 and 40.

¹⁰⁹ We note that Section 395 of the Alberta *Insurance Act* already includes this condition.

requirements, rules of appointment and revocation, responsibilities and reporting requirements. Specifically, the *Insurance Act* states the following:

- 408(1)** The directors of the company or, where the directors so choose, the audit committee of the company must meet with the actuary of a provincial company at least once during each financial year.
- (2)** The actuary must report at the meeting
- (a) on the financial position of the provincial company, and
 - (b) if directed to do so by the Minister, the expected future financial condition of the company.¹¹⁰

In addition,

- (409)** The actuary of a provincial company must report in writing to the directors, chief executive officer and chief financial officer of the company and to the Minister any matters that have come to the actuary's attention in the course of carrying out the actuary's duties and that in the actuary's opinion have material adverse effects on the financial condition of the company and require rectification.

Possible Enhancements

At the time of this research paper, no possible enhancements have been identified for this ICP as it relates to the actuaries' role in safeguarding the solvency of P&C insurers.

ICP 14 – Valuation

The requirements for actuarial valuation are clearly specified in *Subpart 9 – Actuaries* of the *Insurance Act*:

- (405)(1)** The actuary of a provincial company must value
- (a) the actuarial and other policy liabilities of the company as at the end of a financial year, and
 - (b) any other matter specified in any direction made by the Minister.
- (2)** An actuary who is a Fellow of the Canadian Institute of Actuaries must ensure that the valuation is in accordance with generally accepted actuarial practices with any modification established by the Minister under section 219.
- ...
- 407(1)** The actuary of a provincial company must, not less than 21 days before the date of the annual meeting of the participating policyholders and shareholders of the company, make a report to them on the valuation made under section 405 and on any other matter that is prescribed.

¹¹⁰ Alberta *Insurance Act*.

(2) In each report required under subsection (1), the actuary must state whether, in the actuary's opinion, the annual statement presents fairly the results of the valuation made under section 405.¹¹¹

It also sets out additional criteria giving the Minister the right to appoint an actuary to value the company's policy liabilities:

406(1) The Minister may appoint an individual as an actuary to value the matters referred to in section 405(1)(a) or (b) in relation to a provincial company if the Minister is of the opinion that the appointment is necessary.¹¹²

The *Insurance Act* also gives the Minister the right to extend the scope of work and reporting required of the actuary, if deemed necessary:

410(1) The Minister may, in writing, require that the actuary of a provincial company report to the Minister on the extent of the actuary's procedures used in valuing the actuarially based liability figures contained in the annual return and may, in writing, require that the actuary enlarge or extend the scope of that valuation or direct that any other particular procedure be performed in any particular case, and the actuary must comply with the requirement of the Minister and report to the Minister.¹¹³

In addition, in accordance with Section 792.1 of the *Insurance Act*, which states that "the Superintendent may issue guidelines and interpretation bulletins respecting the interpretation or application of this *Act* or any one or more regulations under this *Act*,"¹¹⁴ the Superintendent has adopted and issued a number of OSFI Guidelines. These Guidelines (including OSFI's *Guideline E-15*) are applicable to each Alberta Provincial P&C Insurer and are posted on Alberta's insurance supervisory authority's website. Parts 5 and 6 of this research paper documents the importance of OSFI's *Guideline E-15* when it comes to actuarial requirements.

Possible Enhancements

Although the Superintendent can issue guidelines in accordance with Section 792.1 of the *Insurance Act*, those guidelines do not have the force of law. However, if the second possible enhancement identified in relation to ICP 1 is implemented by Alberta, the Superintendent would have the authority to issue legally enforceable guidelines and rules, and to issue penalties for non-compliance.

Furthermore, as mentioned under the *Possible Enhancements* section of ICP 1, it would be beneficial to have consistency in the use of "Minister" and "Superintendent" within the *Insurance Act*. If the authority responsible for insurance supervision in the province is defined as the Superintendent (which would be consistent with the Alberta website), *Subpart 9 – Actuaries* of the *Insurance Act* would need to be modified to refer to the Superintendent, instead of the Minister.

¹¹¹ Alberta *Insurance Act*.

¹¹² Alberta *Insurance Act*.

¹¹³ Alberta *Insurance Act*.

¹¹⁴ Alberta *Insurance Act*.

In addition, Section 219 of the *Insurance Act* has a subsection that states:

- (1) Where a provincial company provides its or its subsidiaries' audited financial statements to the Minister, policyholders, shareholders or the public, the company must ensure that the statements are prepared in accordance with the following:
 - ...
 - (c) subject to subsection (2), generally accepted actuarial practices described in the Standards of Practice of the Canadian Institute of Actuaries, as amended from time to time;
 - (d) any modification of those principles, standards or practices established by the Minister or any additional requirements, principles, standards or practices established by the Minister.
- (2) Subsection (1)(c) does not apply to a provincial property and casualty company or its subsidiaries if the actuary of the provincial company is not a Fellow in good standing of the Canadian Institute of Actuaries but has been approved by the Minister under section 395(2)(b).

As discussed in Part 5 of this research paper, once the second portion of the definition of the term “actuary”, which allows the Minister to approve someone other than an FCIA to perform actuarial valuation, is removed from the *Insurance Act*, other sections affected by that change should also be modified. The above quotation is just one example of a section that would be affected by the change in the definition.

ICP 16 – Enterprise Risk Management for Solvency Purposes

As mentioned previously, in accordance with Section 792.1 of the *Insurance Act*, the Superintendent has adopted and issued a number of OSFI Guidelines, including *Guideline E-18*, *Guideline E-19*, *Guideline A-4*, and the *Corporate Governance Guideline*. These guidelines, which are applicable to each Alberta Provincial P&C Insurer, are posted on Alberta's insurance supervisory authority's website. In addition, *Subpart 9 – Actuaries* of the *Insurance Act*, has a provision that allows the Minister to request the company's actuary to value “any other matter specified in any direction made by the Minister”¹¹⁵ and *Additional Information* section of the *Insurance Act* states that:

- 50** A licensed insurer must provide to the Minister, within the time specified by the Minister,
- (a) any information that is required by the Minister to enable the Minister to respond to inquiries on the company's market conduct activities;
 - (b) any information that is required by the Minister for analytical or policy making purposes.¹¹⁶

¹¹⁵ Alberta *Insurance Act*.

¹¹⁶ Alberta *Insurance Act*.

In addition, sections 405(1)(b) and 408(2)(b), as well as 50(b) allow the Superintendent to request a provincial P&C insurer to perform a DCAT report when necessary. Together, all of these provisions satisfy the requirements of ICP 16 in the province of Alberta.

Readers are referred to Part 6 of this research paper for more information regarding the details and importance of the above guidelines.

Although Alberta has adopted many of OSFI guidelines, minimum and supervisory MCT requirements for Alberta Provincial P&C Insurers are different from those defined by OSFI. These requirements are not posted on the Alberta website, but instead, are communicated to the Provincial P&C Insurers directly as part of an annual letter. It is the responsibility of each insurer to communicate those requirements to their actuaries.

Possible Enhancements

Although the Superintendent can issue guidelines in accordance with Section 792.1 of the *Insurance Act*, those guidelines do not have the force of law. However, if the second possible enhancement identified in relation to ICP 1 is implemented by Alberta, the Superintendent would have the authority to issue legally enforceable guidelines and rules, and to issue penalties for non-compliance.

In addition, if any differences exist between OSFI's and Alberta's requirements underlying the application of any OSFI guideline adopted and issued by the Alberta Superintendent, it could be beneficial to have these differences clearly identified on the Alberta website (or as part of a regulation). This would allow for the actuaries and the Provincial P&C Insurers to have easy access to the guidance and would decrease any chances for miscommunication or misunderstanding.

Manitoba

ICP 1 – Objectives, Powers and Responsibilities of the Supervisor

The primary legislation that defines the authority responsible for insurance supervision in Manitoba is the *Insurance Act*. Part I of the *Insurance Act – Superintendent and His Duties*, clearly defines the authority responsible for the insurance supervision in Manitoba. The *Insurance Act* states the following with respect to the duties of the Superintendent:

The superintendent has the following functions and duties:

- (a) To supervise the business of insurance in Manitoba;
- (b) To supervise and inspect insurers and to examine their financial affairs;
- (c) To see that the laws relating to the business of insurance are enforced and obeyed;
- (d) To examine and report to the minister from time to time upon all matters connected with the business of insurance;

- (e) Such other functions and duties as the minister may assign to the superintendent.¹¹⁷

The *Insurance Act* also states that the Superintendent “may bring actions and institute proceedings in the superintendent’s name of office to enforce of a provision of this Act or the regulations or to recover fees or penalties payable under this Act or the regulations.”¹¹⁸ However, it does not give the Superintendent the powers to issue and enforce rules by administrative means and to take immediate action thus diverging from international best practice.

Possible Enhancements

Possible enhancements on which PACICC might consider commenting include:

- a) Incorporating a more explicit reference in the *Insurance Act* regarding the objectives of insurance supervision as they relate to promotion of a fair, safe and stable insurance sector for the benefit and protection of policyholders, as stated in the international best practices; and
- b) Establishing explicit provisions in the *Insurance Act* giving the power to the Superintendent to issue legally enforceable guidelines and rules, and to issue penalties for non-compliance.

ICP 5 – Suitability of Persons

Readers are referred to Part 5 that discusses the definition of the actuary in each provincial Insurance Legislation.

The *Insurance Act* does not have a section specific to the actuaries’ roles within the insurance companies. It also does not discuss the notification and revocation rules and requirements as they pertain to the suitability of persons to serve as actuary to Manitoba Provincial P&C Insurers.

Possible Enhancements

To improve the consistency across Canadian jurisdictions and across insurance entities, PACICC might consider commenting on possible enhancements to the definition of the term “actuary” in the *Insurance Act* to include the following conditions:

- a) An FCIA in good standing;
- b) Meeting any additional qualification requirements defined by the CIA; and
- c) Meeting any additional qualification requirements defined by the provincial authority responsible for insurance supervision.

If the Superintendent decides to continue providing solvency monitoring for Manitoba Provincial P&C Insurers, PACICC could also consider commenting on the possibility to include a section within the *Insurance Act* describing the roles of actuaries working in solvency monitoring and

¹¹⁷ Manitoba *Insurance Act*.

¹¹⁸ Manitoba *Insurance Act*.

valuation for Provincial P&C Insurers. This section would be similar to Insurance Legislation that has been found to be in agreement with ICP 5 in other provinces.

ICP 8 – Risk Management and Internal Controls

The *Insurance Act* does not have a section specific to the actuaries' qualification requirements, rules of appointment and revocation, responsibilities and reporting requirements. However, the Superintendent indicated that the only Manitoba Provincial P&C Insurer follows OSFI's requirements through moral suasion. The Superintendent also indicated that it has not experienced any compliance issues with this company in the past.

Possible Enhancements

If the Superintendent decides to continue providing solvency monitoring for Manitoba Provincial P&C Insurers, PACICC could consider commenting on the inclusion of a section within the *Insurance Act* specifically describing the actuary's qualification requirements, rules of appointment and revocation, as well as the actuary's responsibilities and reporting requirements. This section would be similar to Insurance Legislation that has been found to be in agreement with ICP 8 in other provinces.

ICP 14 – Valuation

Currently, there are no requirements specific to P&C actuaries' valuation of policy liabilities in the *Insurance Act*. However, Part XI – Fraternal Societies, has a provision that states the following:

314(1) In addition to the annual statement required to be filed under this Act, each society shall file with the superintendent, not later than May 1 in each year, a valuation of its certificates or contracts of insurance in force at the last preceding December 31; and that valuation

- (a) shall be prepared having regard to the prospective liabilities of the society under its contracts, and to the rates of contribution of members in force at the date of the valuation;
- (b) shall be made and certified by an actuary appointed by the society; and
- (c) shall include a valuation balance sheet in such form and detail as the superintendent prescribes.¹¹⁹

Possible Enhancements

If the Superintendent decides to continue providing solvency monitoring for Manitoba Provincial P&C Insurers, PACICC could consider commenting on the following possible enhancements:

¹¹⁹ Manitoba *Insurance Act*.

- b) An inclusion of requirements for actuarial valuation for Provincial P&C Insurers, similar to requirements currently included for fraternal societies in the *Insurance Act*, and similar to the sections dedicated to actuaries' responsibilities relating to valuation of policy liabilities found in other Canadian jurisdictions *Insurance Acts*; and
- c) The official adoption of OSFI's *Guideline E-15* and, if the second possible enhancement identified in relation to ICP 1 is implemented by Manitoba, the Superintendent would have the authority to issue *Guideline E-15* as a legally enforceable guideline, and to issue penalties for non-compliance.

ICP 16 – Enterprise Risk Management for Solvency Purposes

Currently, it does not appear that the Superintendent has officially adopted any of OSFI's guidelines relating to enterprise risk management for solvency purposes. However, during the interview process, the Superintendent has stated that a DCAT analysis has been requested from the Manitoba Provincial P&C Insurers using moral suasion.

Possible Enhancements

If the Superintendent decides to continue providing solvency monitoring for Manitoba Provincial P&C Insurers, PACICC could consider commenting on the potential to officially adopt *Guideline E-18*, *Guideline E-19*, *Guideline A-4*, and the *Corporate Governance Guideline*. These guidelines would provide additional guidance to Manitoba Provincial P&C Insurers relating to enterprise risk management for solvency purposes and, if the second possible enhancement identified in relation to ICP 1 is implemented by Manitoba, the Superintendent would have the authority to issue these guidelines as legally enforceable guidelines, and to issue penalties for non-compliance.

Readers are referred to Part 6 of this research paper for more information regarding the details and importance of the above guidelines.

New Brunswick

ICP 1 – Objectives, Powers and Responsibilities of the Supervisor

The primary legislation that defines the authority responsible for insurance supervision in New Brunswick is the *Insurance Act*. Part I of the *Insurance Act – Superintendent and His Duties*, Superintendent of Insurance, clearly defines the authority responsible for the insurance supervision in New Brunswick. Section 3(1) of the *Insurance Act* states the following with respect to the duties of the Superintendent:

Subject to the direction of the Financial and Consumer Services Commission, the Superintendent shall have general supervision of the business of insurance within the Province, see that the laws relating to the business of insurance are enforced

and obeyed, and report to the Financial and Consumer Services Commission on all matters connected with the business of insurance.¹²⁰

It also states that “the Superintendent may bring actions and institute proceedings in his name of office for the enforcement of any of the provisions of this *Act* or for the recovery of fees and penalties payable hereunder.”¹²¹ However, it does not give the Superintendent the powers to issue and enforce rules by administrative means and to take immediate action thus diverging from international best practice.

Possible Enhancements

Possible enhancements on which PACICC might consider commenting include:

- a) Incorporating a more explicit reference in the *Insurance Act* regarding the objectives of insurance supervision as they relate to promotion of a fair, safe and stable insurance sector for the benefit and protection of policyholders, as stated in the international best practices; and
- b) Establishing explicit provisions in the *Insurance Act* giving the power to the Superintendent to issue legally enforceable guidelines and rules, and to issue penalties for non-compliance.

ICP 5 – Suitability of Persons

Readers are referred to Part 5 for a discussion of the definition of the actuary in each provincial Insurance Legislation.

The *Insurance Act* does not have a section specific to the actuaries’ roles within the insurance companies. It also does not discuss the notification and revocation rules and requirements as they pertain to the suitability of persons to serve as actuary to New Brunswick Provincial P&C Insurers.

Possible Enhancements

To improve the consistency across Canadian jurisdictions and across insurance entities, PACICC might consider commenting on the inclusion of a definition for the term “actuary” in the *Insurance Act* incorporating the following conditions:

- a) An FCIA in good standing;
- b) Meeting any additional qualification requirements defined by the CIA; and
- c) Meeting any additional qualification requirements defined by the provincial authority responsible for insurance supervision.

If the Superintendent decides to continue providing solvency monitoring for New Brunswick Provincial P&C Insurers, PACICC could also consider commenting on the possibility to include a section within the *Insurance Act* describing the roles of actuaries working with Provincial P&C

¹²⁰ New Brunswick *Insurance Act*.

¹²¹ New Brunswick *Insurance Act*.

Insurers. This section would be similar to the Insurance Legislation that has been found to be in agreement with ICP 5 in other provinces.

ICP 8 – Risk Management and Internal Controls

The *Insurance Act* does not have a section specific to the actuaries' qualification requirements, rules of appointment and revocation, responsibilities and reporting requirements. However, of the five Provincial P&C Insurers currently regulated by the Province of New Brunswick, the representatives of the Superintendent¹²² indicated that only one insurer is currently underwriting automobile insurance and that this insurer is following most of OSFI's requirements. The representatives of the Superintendent also indicated that it has not experienced any compliance issues with this company in the past. The other four Provincial P&C Insurers are small mutual P&C insurance companies that do not currently have an appointed actuary. The representatives of the New Brunswick Superintendent mentioned that the additional costs for such a requirement is likely being perceived by these insurers as a financial barrier.

Possible Enhancements

If the Superintendent decides to continue providing solvency monitoring for New Brunswick Provincial P&C Insurers, PACICC could consider commenting on the inclusion of a section within the *Insurance Act* specifically describing the actuary's qualification requirements, rules of appointment and revocation, as well as the actuary's responsibilities and reporting requirements. This section would be similar to Insurance Legislation that has been found to be in agreement with ICP 8 in other provinces.

ICP 14 – Valuation

Currently, there are no requirements specific to P&C actuaries' valuation of policy liabilities in the *Insurance Act*. However, in Part X – Fraternal Societies, there is a provision that states the following:

Superintendent not later than the first day of May in each year a valuation of its certificates or contracts of insurance in force at the preceding thirty-first day of December, and such valuation shall be prepared having regard to the prospective liabilities of the society under its contracts and to the rates of contribution of members in force at the date of valuation and shall be made and certified by an actuary appointed by the society and shall include a valuation balance sheet in such form and detail as the Superintendent prescribes.¹²³

Of the five Provincial P&C Insurers currently regulated by the Province of New Brunswick, the representatives of the Superintendent indicated that only one insurer is currently underwriting

¹²² KPMG did not meet with the Superintendent directly. Instead, two representatives of the New Brunswick authority agreed to participate in the interview process to provide comments. Specifically, we met with the Sr. Compliance Officer and a Financial Analyst of the Financial and Consumer Services Commission of New Brunswick.

¹²³ New Brunswick *Insurance Act*.

automobile insurance and that this insurer is following most of OSFI's requirements, including filing an annual AAR prepared in accordance with Canadian actuarial Standards of Practice. The representatives of the Superintendent also indicated that it has not experienced any compliance issues with this company in the past. The other four Provincial P&C Insurers are small mutual P&C insurance companies that do not currently have an appointed actuary. The representatives of the New Brunswick Superintendent mentioned that the additional costs for such a requirement is likely being perceived by these insurers as a financial barrier.

Possible Enhancements

If the Superintendent decides to continue providing solvency monitoring for New Brunswick Provincial P&C Insurers, PACICC might consider commenting on the following possible enhancements:

- a) An inclusion of requirements for actuarial valuation for Provincial P&C Insurers, similar to requirements currently included for fraternal societies in the *Insurance Act*, and similar to the sections dedicated to actuaries' responsibilities relating to valuation of policy liabilities found in other jurisdictions' *Insurance Acts*; and
- b) The official adoption of OSFI's *Guideline E-15* and, if the second possible enhancement identified in relation to ICP 1 is implemented by New Brunswick, the Superintendent would have the authority to issue *Guideline E-15* as a legally enforceable guideline, and to issue penalties for non-compliance.

ICP 16 – Enterprise Risk Management for Solvency Purposes

Currently, it does not appear that the Superintendent has officially adopted any of OSFI's guidelines relating to enterprise risk management for solvency purposes. However, during the interview process, the representatives of the Superintendent explained that the only Provincial P&C Insurer currently underwriting automobile insurance in New Brunswick is following most of OSFI's requirements, including involving the actuary in capital management planning, reviews of MCT calculations and determination of internal target MCT. The other four Provincial P&C Insurers are small mutual P&C insurance companies that do not currently have an appointed actuary. The representatives of the New Brunswick Superintendent mentioned that the additional costs for such a requirement is likely being perceived by these insurers as a financial barrier.

Possible Enhancements

If the Superintendent decides to continue providing solvency monitoring for New Brunswick Provincial P&C Insurers, PACICC could consider commenting on the potential to officially adopt *Guideline E-18*, *Guideline E-19*, *Guideline A-4*, and the *Corporate Governance Guideline*. These guidelines would provide additional guidance to New Brunswick Provincial P&C Insurers relating to enterprise risk management for solvency purposes and, if the second possible enhancement identified in relation to ICP 1 is implemented by New Brunswick, the Superintendent would have the authority to issue these guidelines as legally enforceable, and to issue penalties for non-compliance.

Readers are referred to Part 6 of this research paper for more information regarding the details and importance of the above guidelines.

Newfoundland and Labrador (Newfoundland)

ICP 1 – Objectives, Powers and Responsibilities of the Supervisor

The primary legislation that defines the authority responsible for insurance supervision in Newfoundland is the *Insurance Companies Act (the Insurance Act)*. However, there is no explicit statement in it about the authority responsible for insurance supervision in the province, objectives of insurance supervision or any reference to the maintenance of a fair, safe and stable insurance sector.

Possible Enhancements

PACICC could consider commenting on possible enhancements regarding expanding the section titled “Superintendent and Deputy Superintendent of Insurance” to include the following:

- a) An explicit statement defining the authority responsible for insurance supervision in the province;
- b) An explicit statement with objectives of insurance supervision as they relate to promotion of a fair, safe and stable insurance sector for the benefit and protection of policyholders, as stated in the international best practices; and
- c) Explicit provisions giving the Superintendent the authority to issue legally enforceable guidelines and rules, and to issue penalties for non-compliance.

ICP 5 – Suitability of Persons

Readers are referred to Part 5 for a discussion of the definition of the actuary in each provincial Insurance Legislation.

The *Insurance Act* does not have a section specific to the actuaries’ roles within the insurance companies. It also does not discuss the notification and revocation rules and requirements as they pertain to the suitability of persons to serve as actuary to Newfoundland Provincial P&C Insurers.

Possible Enhancements

To improve the consistency across Canadian jurisdictions and across insurance entities, PACICC might consider commenting on the inclusion of a definition for the term “actuary” in the *Insurance Act* incorporating the following conditions:

- a) An FCIA in good standing;
- b) Meeting any additional qualification requirements defined by the CIA; and
- c) Meeting any additional qualification requirements defined by the provincial authority responsible for insurance supervision.

If the Superintendent decides to continue providing solvency monitoring for Newfoundland Provincial P&C Insurers, PACICC could also consider commenting on the possibility to include a section within the *Insurance Act* describing the roles of actuaries working with Provincial P&C Insurers. This section would be similar to the Insurance Legislation that has been found to be in agreement with ICP 5 in other provinces.

ICP 8 – Risk Management and Internal Controls

The *Insurance Act* does not have a section specific to the actuaries' qualification requirements, rules of appointment and revocation, responsibilities and reporting requirements.

Possible Enhancements

If the Superintendent decides to continue providing solvency monitoring for Newfoundland Provincial P&C Insurers, PACICC could consider commenting on the inclusion of a section within the *Insurance Act* specifically describing the actuary's qualification requirements, rules of appointment and revocation, as well as the actuary's responsibilities and reporting requirements. This section would be similar to Insurance Legislation that has been found to be in agreement with ICP 8 in other provinces.

ICP 14 – Valuation

Currently, there are no requirements specific to P&C actuaries' valuation of policy liabilities in the *Insurance Act*.

Possible Enhancements

If the Superintendent decides to continue providing solvency monitoring for Newfoundland Provincial P&C Insurers, PACICC could consider commenting on the following possible enhancements:

- a) An inclusion of requirements for actuarial valuation for Provincial P&C Insurers, similar to the sections dedicated to actuaries' responsibilities relating to valuation of policy liabilities found in other jurisdictions' *Insurance Acts*; and
- b) The official adoption of OSFI's *Guideline E-15* and, if the second possible enhancement identified in relation to ICP 1 is implemented by Newfoundland, the Superintendent would have the authority to issue *Guideline E-15* as a legally enforceable guideline, and to issue penalties for non-compliance.

ICP 16 – Enterprise Risk Management for Solvency Purposes

Currently, it does not appear that the Superintendent has officially adopted any of OSFI's guidelines relating to enterprise risk management for solvency purposes.

Possible Enhancements

If the Superintendent decides to continue providing solvency monitoring for Newfoundland Provincial P&C Insurers, PACICC could consider commenting on the potential to officially adopt *Guideline E-18, Guideline E-19, Guideline A-4, and the Corporate Governance Guideline*. These guidelines provide additional guidance to Newfoundland Provincial P&C Insurers relating to enterprise risk management for solvency purposes and, if the second possible enhancement identified in relation to ICP 1 is implemented by Newfoundland, the Superintendent would have the authority to issue these guidelines as legally enforceable, and to issue penalties for non-compliance.

Readers are referred to Part 6 of this research paper for more information regarding the details and importance of the above guidelines.

Northwest Territories (NWT)

ICP 1 – Objectives, Powers and Responsibilities of the Supervisor

The primary legislation that defines the authority responsible for insurance supervision in Northwest Territories is the *Insurance Act*. Part XII of the *Insurance Act – Administration*, clearly defines the authority responsible for the insurance supervision in NWT. Section 254(2) of the *Insurance Act* states the following:

- The Superintendent shall
- (a) act under the instructions of the Minister;
 - (b) exercise the powers and perform the duties imposed on the Superintendent under this or any other Act;
 - (c) have the general supervision of the business of insurance in the Northwest Territories; and
 - (d) ensure that the laws relating to the conduct of insurance in the Northwest Territories are enforced and obeyed.¹²⁴

The *Insurance Act* also states that “the Superintendent may bring actions and commence proceedings in his or her name of office for the enforcement of this *Act* or for the recovery of a fee or penalty payable under this *Act*.”¹²⁵ However, it does not give the Superintendent the powers to issue and enforce guidelines and rules by administrative means and to take immediate action thus diverging from international sound practice.

Possible Enhancements

Possible enhancements on which PACICC might consider commenting include:

¹²⁴ NWT *Insurance Act*.

¹²⁵ NWT *Insurance Act*.

- a) Incorporating a more explicit reference in the *Insurance Act* regarding the objectives of insurance supervision as they relate to promotion of a fair, safe and stable insurance sector for the benefit and protection of policyholders, as stated in the international best practices; and
- b) Establishing explicit provisions in the *Insurance Act* giving the Superintendent the authority to issue legally enforceable guidelines and rules, and to issue penalties for non-compliance.

ICP 5 – Suitability of Persons

Readers are referred to Part 5 for a discussion of the definition of the actuary in each provincial Insurance Legislation.

The *Insurance Act* does not have a section specific to the actuaries' roles within the insurance companies. It also does not discuss the notification and revocation rules and requirements as they pertain to the suitability of persons to serve as actuary to NWT Provincial P&C Insurers.

Possible Enhancements

To improve the consistency across Canadian jurisdictions and across insurance entities, PACICC might consider commenting on possible enhancements to the definition of the term “actuary” as included in the *Insurance Act* to incorporate the following conditions:

- a) An FCIA in good standing;
- b) Meeting any additional qualification requirements defined by the CIA; and
- c) Meeting any additional qualification requirements defined by the provincial authority responsible for insurance supervision.

If the Superintendent decides to pursue solvency monitoring for Territorial P&C Insurers in the NWT, PACICC could also consider commenting on the possibility to include a section within the *Insurance Act* describing the roles of actuaries working with Territorial P&C Insurers. This section would be similar to the Insurance Legislation that has been found to be in agreement with ICP 5 in other provinces.

ICP 8 – Risk Management and Internal Controls

The *Insurance Act* does not have a section specific to the actuaries' qualification requirements, rules of appointment and revocation, responsibilities and reporting requirements.

Possible Enhancements

If the Superintendent decides to pursue solvency monitoring for Territorial P&C Insurers in NWT, PACICC could consider commenting on the inclusion of a section within the *Insurance Act* specifically describing the actuary's qualification requirements, rules of appointment and revocation, as well as the actuary's responsibilities and reporting requirements. This section would be similar to Insurance Legislation that has been found to be in agreement with ICP 8 in other provinces.

ICP 14 – Valuation

Currently, there are no requirements specific to P&C actuaries' valuation of policy liabilities in the *Insurance Act*.

Possible Enhancements

If the Superintendent decides to pursue solvency monitoring for NWT Territorial P&C Insurers, PACICC could consider commenting on the following possible enhancements:

- a) An inclusion of requirements for actuarial valuation for Territorial P&C Insurers, similar to the sections dedicated to actuaries' responsibilities relating to valuation of policy liabilities found in other jurisdictions' *Insurance Acts*; and
- b) The official adoption of OSFI's *Guideline E-15* and, if the second possible enhancement identified in relation to ICP 1 is implemented by NWT, the Superintendent would have the authority to issue *Guideline E-15* as a legally enforceable guideline, and to issue penalties for non-compliance.

ICP 16 – Enterprise Risk Management for Solvency Purposes

Currently, it does not appear that the Superintendent has adopted any of OSFI's guidelines relating to enterprise risk management for solvency purposes. However, this may not be seen as a high priority for the NWT prudential insurance regulator as there are currently no Territorial P&C Insurers in NWT.

Possible Enhancements

If the NWT's prudential insurance regulator accepts the registration application for a NWT Provincial Insurer, PACICC could consider commenting on the potential to officially adopt OSFI's *Guideline E-18*, *Guideline E-19*, *Guideline A-4*, and *Corporate Governance Guideline* and, if the second possible enhancement identified in relation to ICP 1 is implemented by NWT, the Superintendent would have the authority to issue these guidelines as legally enforceable, and to issue penalties for non-compliance.

Readers are referred to Part 6 of this research paper for more information regarding the details and importance of the above guidelines.

Nova Scotia (NS)

Although the NS prudential insurance regulator did not participate in the interview process, it is PACICC's understanding that NS has chosen to transfer solvency monitoring responsibility to OSFI by forcing all NS Provincial P&C Insurers to become federally registered.

ICP 1 – Objectives, Powers and Responsibilities of the Supervisor

The primary legislation that defines the authority responsible for insurance supervision in Nova Scotia is the *Insurance Act*. Part I of the *Insurance Act – General*, clearly defines the authority responsible for the insurance supervision in Nova Scotia. Section 5 of the *Insurance Act* states the following:

- (1) The Superintendent has general supervision over the business of insurance in the Province.
- (2) The Superintendent shall secure the enforcement of this Act and, in so doing, may issue such rulings, instructions and orders as he may deem necessary.¹²⁶

However, the *Insurance Act* does not give the Superintendent the powers to issue and enforce rules by administrative means and to take immediate action thus diverging from ICP best practice.

In addition, Nova Scotia' Finance and Treasury Board website (website) includes the following message:

The Office of the Superintendent of Insurance regulates the business of insurance in the province and enforces the Insurance Act...

The Superintendent's Office is frequently sought out by the insured who often find it difficult to understand positions taken by the industry respecting such things as claims, premium ratings and underwriting decisions. Insurers and brokers call upon the office for interpretation of the Insurance Act and regulations.

The Superintendent has the authority to take disciplinary actions if the Act is not followed.

The Superintendent's Office facilitates the interface between consumers and the insurance industry by working toward a responsive legislative framework for insurance companies and agents and by assisting insurance consumers in dealing with insurance matters.

The Superintendent's Office welcomes enquiries on insurance matters from consumers...¹²⁷

Possible Enhancements

Possible enhancements on which PACICC might consider commenting include:

- a) Incorporating the mandate from its website into the *Insurance Act* regarding the objectives of insurance supervision as they relate to promotion of a fair, safe and stable insurance sector for the benefit and protection of policyholders, as stated in the international best practices; and

¹²⁶ Nova Scotia *Insurance Act*.

¹²⁷ Nova Scotia' Finance and Treasury Board. Accessed September 3, 2014.
<http://www.novascotia.ca/finance/en/home/insurance/superintendentofinsurance.aspx>

- b) Establishing explicit provisions in the *Insurance Act* giving the Superintendent the authority to issue legally enforceable guidelines and rules, and to issue penalties for non-compliance.

ICP 5 – Suitability of Persons

Readers are referred to Part 5 for a discussion of the definition of the actuary in each provincial Insurance Legislation.

The *Insurance Act* does not have a section specific to the actuaries' roles within the insurance companies. It also does not discuss the notification and revocation rules and requirements as they pertain to the suitability of persons to serve as actuary to NS Provincial P&C Insurers.

Possible Enhancements

To improve the consistency across Canadian jurisdictions and across insurance entities, PACICC might consider commenting on the inclusion of a definition for the term “actuary” in the *Insurance Act* incorporating the following conditions:

- a) An FCIA in good standing;
- b) Meeting any additional qualification requirements defined by the CIA; and
- c) Meeting any additional qualification requirements defined by the provincial authority responsible for insurance supervision.

Although the NS prudential insurance regulator did not participate in the interview process, it is PACICC's understanding that NS has chosen to transfer solvency monitoring responsibility to OSFI by forcing all NS Provincial P&C Insurers to become federally registered. If the NS prudential insurance regulator accepts the registration application for a NS Provincial Insurer, PACICC could also consider commenting on the possibility to include a section within the *Insurance Act* describing the roles of actuaries working with Provincial P&C Insurers. This section would be similar to the Insurance Legislation that has been found to be in agreement with ICP 5 in other provinces.

ICP 8 – Risk Management and Internal Controls

The *Insurance Act* does not have a section specific to the actuaries' qualification requirements, rules of appointment and revocation, responsibilities and reporting requirements.

Possible Enhancements

If the NS prudential insurance regulator accepts the registration application for a NS Provincial P&C Insurer, PACICC could consider commenting on the inclusion of a section within the *Insurance Act* specifically describing the actuary's qualification requirements, rules of appointment and revocation, as well as the actuary's responsibilities and reporting requirements. This section would be similar to Insurance Legislation that has been found to be in agreement with ICP 8 in other provinces.

ICP 14 – Valuation

Currently, there are no requirements specific to P&C actuaries' valuation of policy liabilities in the *Insurance Act*.

Possible Enhancements

If the NS prudential insurance regulator accepts the registration application for a NS Provincial P&C Insurer, PACICC could consider commenting on the following possible enhancements:

- a) An inclusion of requirements for actuarial valuation for Provincial P&C Insurers, similar to the sections dedicated to actuaries' responsibilities relating to valuation of policy liabilities found in other jurisdictions' *Insurance Acts*; and
- b) The official adoption of OSFI's *Guideline E-15* and, if the second possible enhancement identified in relation to ICP 1 is implemented by NS, the Superintendent would have the authority to issue *Guideline E-15* as a legally enforceable guideline, and to issue penalties for non-compliance.

ICP 16 – Enterprise Risk Management for Solvency Purposes

Currently, it does not appear that the Superintendent has officially adopted any of OSFI's guidelines relating to enterprise risk management for solvency purposes.

Possible Enhancements

If the NS' prudential insurance regulator accepts the registration application for a NS Provincial Insurer, PACICC could consider commenting on the potential to officially adopt OSFI's *Guideline E-18*, *Guideline E-19*, *Guideline A-4*, and *Corporate Governance Guideline*. These guidelines provide additional guidance to NS Provincial P&C Insurers relating to enterprise risk management for solvency purposes and, if the second possible enhancement identified in relation to ICP 1 is implemented by NS, the Superintendent would have the authority to issue *Guideline E-15* as a legally enforceable guideline, and to issue penalties for non-compliance.

Readers are referred to Part 6 of this research paper for more information regarding the details and importance of the above guidelines.

Nunavut

ICP 1 – Objectives, Powers and Responsibilities of the Supervisor

The primary legislation that defines the authority responsible for insurance supervision in Nunavut is the Consolidation of *Insurance Act (Insurance Act)*. Part XII of the *Insurance Act – Administration*, clearly defines the authority responsible for the insurance supervision in Nunavut. Section 254(2) of the *Insurance Act* states the following:

The Superintendent shall

- (a) act under the instructions of the Minister;
- (b) exercise the powers and perform the duties imposed on the Superintendent under this or any other Act;
- (c) have the general supervision of the business of insurance in Nunavut; and
- (d) ensure that the laws relating to the conduct of insurance in Nunavut are enforced and obeyed.¹²⁸

It also states that “the Superintendent may bring actions and commence proceedings in his or her name of office for the enforcement of this Act or for the recovery of a fee or penalty payable under this Act.”¹²⁹ However, it does not give the Superintendent the powers to issue and enforce rules by administrative means and to take immediate action thus diverging from ICP best practice.

Possible Enhancements

Possible enhancements on which PACICC might consider commenting include:

- a) Incorporating a more explicit reference in the *Insurance Act* regarding the objectives of insurance supervision as they relate to promotion of a fair, safe and stable insurance sector for the benefit and protection of policyholders, as stated in the international best practices; and
- b) Establishing explicit provisions in the *Insurance Act* giving the Superintendent the authority to issue legally enforceable guidelines and rules, and to issue penalties for non-compliance.

ICP 5 – Suitability of Persons

Readers are referred to Part 5 for a discussion of the definition of the actuary in each provincial Insurance Legislation.

The *Insurance Act* does not have a section specific to the actuaries’ roles within the insurance companies. It also does not discuss the notification and revocation rules and requirements as they pertain to the suitability of persons to serve as actuary to Nunavut Territorial P&C Insurers.

Possible Enhancements

To improve the consistency across Canadian jurisdictions and across insurance entities, PACICC might consider commenting on possible enhancements to the definition of the term “actuary” as included in the *Insurance Act* to incorporate the following conditions:

- a) An FCIA in good standing;
- b) Meeting any additional qualification requirements defined by the CIA; and
- c) Meeting any additional qualification requirements defined by the provincial authority responsible for insurance supervision.

¹²⁸ Nunavut *Insurance Act*.

¹²⁹ Nunavut *Insurance Act*.

If the Superintendent decides to establish solvency monitoring for Nunavut Territorial P&C Insurers, PACICC could also consider commenting on the possibility to include a section within the *Insurance Act* describing the roles of actuaries working with Territorial P&C Insurers. This section would be similar to the Insurance Legislation that has been found to be in agreement with ICP 5 in other provinces.

ICP 8 – Risk Management and Internal Controls

The *Insurance Act* does not have a section specific to the actuaries' qualification requirements, rules of appointment and revocation, responsibilities and reporting requirements.

Possible Enhancements

If the Superintendent decides to establish solvency monitoring for Nunavut Territorial P&C Insurers, PACICC could consider commenting on the inclusion of a section within the *Insurance Act* specifically describing the actuary's qualification requirements, rules of appointment and revocation, as well as the actuary's responsibilities and reporting requirements. This section would be similar to the Insurance Legislation that has been found to be in agreement with ICP 8 in other provinces.

ICP 14 – Valuation

Currently, there are no requirements specific to P&C actuaries' valuation of policy liabilities in the *Insurance Act*.

Possible Enhancements

If the Superintendent decides to establish solvency monitoring for Nunavut Territorial P&C Insurers, PACICC could consider commenting on the following possible enhancements:

- a) An inclusion of requirements for actuarial valuation for Territorial P&C Insurers, similar the sections dedicated to actuaries' responsibilities relating to valuation of policy liabilities found in other jurisdictions' *Insurance Acts*; and
- b) The official adoption of OSFI's *Guideline E-15* and, if the second possible enhancement identified in relation to ICP 1 is implemented by Nunavut, the Superintendent would have the authority to issue *Guideline E-15* as a legally enforceable guideline, and to issue penalties for non-compliance.

ICP 16 – Enterprise Risk Management for Solvency Purposes.

Currently, it does not appear that the Superintendent has adopted any of OSFI's guidelines relating to enterprise risk management for solvency purposes. However, this may not be seen as a high priority for the Nunavut Superintendent as there are currently no Nunavut Territorial P&C Insurers.

Possible Enhancements

If the Nunavut prudential insurance regulator decides to establish monitoring for Nunavut Territorial P&C Insurer, PACICC could consider commenting on the potential to officially adopt OSFI's *Guideline E-18, Guideline E-19, Guideline A-4, and Corporate Governance Guideline*. These guidelines provide additional guidance to Nunavut P&C Insurers relating to enterprise risk management for solvency purposes and, if the second possible enhancement identified in relation to ICP 1 is implemented by Nunavut, the Superintendent would have the authority to issue these guidelines as legally enforceable, and to issue penalties for non-compliance.

Readers are referred to Part 6 of this research paper for more information regarding the details and importance of the above guidelines.

Ontario

ICP 1 – Objectives, Powers and Responsibilities of the Supervisor

There are two primary legislations that set out requirements for insurance companies in Ontario – the *Insurance Act* and the *Financial Services Commission of Ontario Act (FSCO Act)*.

Section 3 of the *FSCO Act* states the following regarding FSCO's purpose:

- (a) to provide regulatory services that protect the public interest and enhance public confidence in the regulated sectors;
- (b) to make recommendations to the Minister on matters affecting the regulated sectors; and
- (c) to provide the resources necessary for the proper functioning of the Tribunal.¹³⁰

It also states that "there shall be a Superintendent of Financial Services ... who shall be the chief executive officer of the Commission."¹³¹

Section 5(2) of the *FSCO Act* also addresses the powers of the Superintendent of FSCO:

The Superintendent shall,

- (a) be responsible for the financial and administrative affairs of the Commission;
- (b) exercise the powers and duties conferred on or assigned to the Superintendent;
- (c) administer and enforce this Act and every other Act that confers powers on or assigns duties to the Superintendent; and
- (d) supervise generally the regulated sectors.¹³²

¹³⁰ Ontario *FSCO Act*.

¹³¹ Ontario *FSCO Act*.

¹³² Ontario *FSCO Act*.

However, the Acts do not give the Superintendent the powers to issue and enforce rules by administrative means and to take immediate action thus diverging from ICP best practice.

Possible Enhancements

PACICC could consider commenting on the possibility of establishing explicit provisions in the *Insurance Act* or *FSCO Act* to give the Superintendent the authority to issue legally enforceable rules and to issue penalties for non-compliance.

ICP 5 – Suitability of Persons

Readers are referred to Part 5 for a discussion of the definition of the actuary in each provincial Insurance Legislation.

Part II.1 – Actuary of the Insurer of the *Insurance Act* discusses the notification and revocation rules and requirements as they pertain to the suitability of persons to serve as actuary to Ontario Provincial P&C Insurers.

Possible Enhancements

To improve the consistency across Canadian jurisdictions and across insurance entities, PACICC might consider commenting on possible enhancements to the definition of the term “actuary” as included in the *Insurance Act* to incorporate the following conditions:

- a) An FCIA in good standing;
- b) Meeting any additional qualification requirements defined by the CIA; and
- c) Meeting any additional qualification requirements defined by the provincial authority responsible for insurance supervision.

ICP 8 – Risk Management and Internal Controls

The role of the AA is fully embedded in the decision making process of the Ontario Provincial P&C Insurers. Part II.1 – Actuary of the Insurer, of the *Insurance Act* discusses actuaries’ qualification requirements, rules of appointment and revocation, responsibilities and reporting requirements. Specifically, Section 121.17 of the *Insurance Act* states the following:

- (1) An actuary of the insurer shall meet with the directors of the insurer or, if the directors so choose, with the audit committee of the insurer at least once during each fiscal year. ...
- (2) At the meeting referred to in subsection (1), the actuary of the insurer shall report, in accordance with generally accepted actuarial practice and any direction made by the Superintendent, on the financial position of the insurer and, if specified in

a direction of the Superintendent, the expected future financial condition of the insurer.¹³³

In addition, Section 121.18 states,

- (1) An actuary of the insurer shall report in writing to the chief executive officer and chief financial officer of the insurer any matters that have come to the actuary's attention in the course of carrying out the actuary's duties if, in the actuary's opinion, they have material adverse effects on the financial condition of the insurer and those matters require rectification.
- (2) An actuary of the insurer shall also provide a copy of the report referred to in subsection (1) to the directors of the insurer immediately after making it. ...
- (3) If, in the opinion of the actuary of the insurer, suitable action is not being taken to rectify the matters referred to in subsection (1), the actuary shall immediately send a copy of the report to the Superintendent and advise the directors of the insurer that he or she has done so.¹³⁴

Possible Enhancements

At the time of this research paper, no additional enhancements have been identified for this ICP as it relates to the actuaries' role in safeguarding the solvency of P&C insurers.

ICP 14 – Valuation

The requirements for actuarial valuation are clearly specified in the *Insurance Act*. The *Insurance Act* has a section specific to actuaries titled *Part II.1 – Actuary of the Insurer*. It sets out the following requirements:

- 121.13 (1) An actuary of the insurer shall value,
- (a) the actuarial and other policy liabilities of the insurer as at the end of a year covered by the annual statement required under subsection 102 (1); and
 - (b) any other matters the Superintendent directs.
- (2) The actuary's valuation shall be in accordance with generally accepted actuarial practice with such changes as may be determined by the Superintendent and any additional directions that may be made by the Superintendent.¹³⁵

It also sets out additional criteria giving the Minister the right to appoint its own actuary to value the company's policy liabilities:

¹³³ Ontario *Insurance Act*.

¹³⁴ Ontario *Insurance Act*.

¹³⁵ Ontario *Insurance Act*.

- 121.14 (1) The Superintendent may appoint an actuary to,
- (a) conduct a review of the valuation of the actuary of the insurer completed under section 121.13; or
 - (b) conduct an independent valuation of matters referred to in section 121.13.¹³⁶

The actuary is also required to opine on the policy liabilities:

- 121.16 (1) An actuary of the insurer shall submit a report in a form approved by the Superintendent to shareholders and policyholders of the insurer on the valuation made under section 121.13 and on any other matter required by the Superintendent, at least 21 days before the date of the annual meeting.
- (2) The report shall include a statement by the actuary of the insurer as to whether, in the actuary's opinion, the annual statement required under subsection 102 (1) presents fairly the results of the valuation made under section 121.13.¹³⁷

Possible Enhancements

As mentioned previously, FSCO has stated that they are in the process of transferring their solvency monitoring responsibilities to OSFI. As a result, possible enhancements have not been identified at this time.

ICP 16 – Enterprise Risk Management for Solvency Purposes

As stated above, FSCO is currently in the process of transferring their solvency monitoring responsibilities to OSFI. As a result, this research paper does not comment on this ICP for FSCO.

Possible Enhancements

As stated above, FSCO is the process of transferring their solvency monitoring responsibilities to OSFI. Thus, possible enhancements have not been identified at this time.

Prince Edward Island (PEI)

ICP 1 – Objectives, Powers and Responsibilities of the Supervisor

The primary legislation that defines the authority responsible for insurance supervision in PEI is the *Insurance Act*. Part I of the *Insurance Act* – Superintendent and His Duties, clearly defines the

¹³⁶ Ontario *Insurance Act*.

¹³⁷ Ontario *Insurance Act*.

authority responsible for the insurance supervision in PEI. Section 2(2) of the *Insurance Act* states the following:

The Superintendent shall act under the instructions of the Minister, have general supervision of the business of insurance within the province, see that the laws relating thereto are enforced and obeyed, and examine and report to the Minister upon all matters connected therewith.¹³⁸

It also states that “the Superintendent may bring actions and institute proceedings in his name of office for the enforcement of this *Act* or for the recovery of fees and penalties payable hereunder.”¹³⁹ However, it does not give the Superintendent the powers to issue and enforce rules by administrative means and to take immediate action thus diverging from international best practice. In addition, the Department of Environment, Labour and Justice website (website) states the following regarding the objectives of insurance supervision:

The Superintendent participates in regional and national efforts to ensure the local insurance industry environment remains current and best serves the needs of all stakeholders. The ultimate goal remains to ensure the products demanded by the public are available at the lowest possible cost.¹⁴⁰

Possible Enhancements

Possible enhancements on which PACICC might consider commenting include:

- a) Incorporating an explicit reference in the *Insurance Act* regarding the objectives of insurance supervision as they relate to promotion of a fair, safe and stable insurance sector for the benefit and protection of policyholders, as stated in the international best practices; and
- b) Establishing explicit provisions in the *Insurance Act* giving the Superintendent the authority to issue legally enforceable guidelines and rules, and to issue penalties for non-compliance.

ICP 5 – Suitability of Persons

Readers are referred to Part 5 for a discussion of the definition of the actuary in each provincial Insurance Legislation.

The *Insurance Act* does not have a section specific to the actuaries’ roles within the insurance companies. It also does not discuss the notification and revocation rules and requirements as they pertain to the suitability of persons to serve as actuary to PEI Provincial P&C Insurers.

¹³⁸ PEI *Insurance Act*.

¹³⁹ PEI *Insurance Act*.

¹⁴⁰ Department of Environment, Labour and Justice. Accessed September 3, 2014.

<http://www.gov.pe.ca/jps/index.php3?number=1027253&lang=E>

Possible Enhancements

To improve the consistency across Canadian jurisdictions and across insurance entities, PACICC might consider commenting on the inclusion of a definition for the term “actuary” in the *Insurance Act* incorporating the following conditions:

- a) An FCIA in good standing;
- b) Meeting any additional qualification requirements defined by the CIA; and
- c) Meeting any additional qualification requirements defined by the provincial authority responsible for insurance supervision.

If the Superintendent decides to continue providing solvency monitoring for PEI Provincial P&C Insurers, PACICC could also consider commenting on the possibility to include a section within the *Insurance Act* describing the roles of actuaries working with Provincial P&C Insurers. This section would be similar to the Insurance Legislation that has been found to be in agreement with ICP 5 in other provinces.

ICP 8 – Risk Management and Internal Controls

The *Insurance Act* does not have a section specific to the actuaries’ qualification requirements, rules of appointment and revocation, responsibilities and reporting requirements. However, the Superintendent indicated that the two Provincial P&C Insurers regulated by PEI follow OSFI’s requirements through moral suasion. The Superintendent also indicated that they have not experienced any compliance issues with those companies in the past.

Possible Enhancements

If the Superintendent decides to continue providing solvency monitoring for PEI Provincial P&C Insurers, PACICC could consider commenting on the inclusion of a section within the *Insurance Act* specifically describing the actuary’s qualification requirements, rules of appointment and revocation, as well as the actuary’s responsibilities and reporting requirements. This section would be similar to Insurance Legislation that has been found to be in agreement with ICP 8 in other provinces.

ICP 14 – Valuation

Currently, there are no requirements specific to P&C actuaries’ valuation of policy liabilities in the *Insurance Act*. However, Part X – Fraternal Societies, has a provision that states the following:

- 281.** (1) In addition to the annual statement required to be filed under this Act, each society shall file with the Superintendent not later than May 1 in each year a valuation of its certificates or contracts of insurance in force at the preceding December 31, and such valuation shall be prepared having regard to the prospective liabilities of the society under its contracts and to the rates of contribution of members, in force at the date of valuation and shall be made and certified by an actuary appointed by the society, and shall include a valuation balance sheet in such form and detail as the Superintendent prescribes.

(2) Where the valuation balance sheet shows that the society is in a position to provide for the payment of its contracts as they mature, without deduction or abatement and without increase in its existing rates of contribution, the society shall file with the Superintendent a declaration of the actuary to that effect.¹⁴¹

Although PEI has not adopted OSFI's *Guideline E-15*, during the interview process, the Superintendent has stated that a peer review has been requested from the PEI Provincial P&C insurer using moral suasion and there have not been any compliance issues.

Possible Enhancements

If the Superintendent decides to continue providing solvency monitoring for PEI Provincial P&C Insurers, PACICC could consider commenting on the following possible enhancements:

- a) An inclusion of requirements for actuarial valuation for Provincial P&C Insurers, similar to requirements currently included for fraternal societies in the *Insurance Act*, and similar to the sections dedicated to actuaries' responsibilities relating to valuation of policy liabilities found in other jurisdictions' *Insurance Acts*; and
- b) The official adoption of OSFI's *Guideline E-15* and, if the second possible enhancement identified in relation to ICP 1 is implemented by PEI, the Superintendent would have the authority to issue *Guideline E-15* as a legally enforceable guideline, and to issue penalties for non-compliance.

ICP 16 – Enterprise Risk Management for Solvency Purposes

Currently, it does not appear that the Superintendent has officially adopted any of OSFI's guidelines relating to enterprise risk management for solvency purposes.

Possible Enhancements

If the Superintendent decides to continue providing solvency monitoring for PEI Provincial P&C Insurers, PACICC could consider commenting on the potential to officially adopt OSFI's *Guideline E-18*, *Guideline E-19*, *Guideline A-4*, and *Corporate Governance Guideline*. These guidelines would provide additional guidance to PEI Provincial P&C Insurers relating to enterprise risk management for solvency purposes and, if the second possible enhancement identified in relation to ICP 1 is implemented by PEI, the Superintendent would have the authority to issue these guidelines as legally enforceable, and to issue penalties for non-compliance.

Readers are referred to Part 6 of this research paper for more information regarding the details and importance of the above guidelines.

¹⁴¹ PEI *Insurance Act*.

Saskatchewan¹⁴²

ICP 1 – Objectives, Powers and Responsibilities of the Supervisor

The primary legislation that defines the authority responsible for insurance supervision in Saskatchewan is the Saskatchewan *Insurance Act* (*Insurance Act*). Interpretation section of the *Insurance Act* states the following with respect to the authority responsible for insurance supervision in the province:

Notwithstanding any other provision of this Act or the regulations or of any other Act or law, if, pursuant to The Financial and Consumer Affairs Authority of Saskatchewan Act, the Financial and Consumer Affairs Authority of Saskatchewan is assigned the performance of all or any of the responsibilities imposed on the superintendent and the exercise of all or any of the powers given to the superintendent by this Act or the regulations:

- (a) any reference with respect to those responsibilities or powers in this Act or the regulations to the superintendent is to be interpreted as a reference to the Financial and Consumer Affairs Authority of Saskatchewan; and
- (b) this Act and the regulations are to be interpreted subject to the provisions of The Financial and Consumer Affairs Authority of Saskatchewan Act.¹⁴³

In Addition, Part I of the *Insurance Act* – Superintendent and his duties, states the following regarding the responsibility of the superintendent:

There may be appointed an officer to be called the Superintendent of Insurance, who shall have general supervision of the business of insurance within Saskatchewan and shall see that the laws relating to the conduct thereof are enforced and obeyed and shall examine and report to the minister from time to time upon all matters connected with insurance.¹⁴⁴

Furthermore, although the *Insurance Act* does not explicitly state the objectives of insurance supervision, the Financial and Consumer Affairs Authority of Saskatchewan website contains the following mandate:

Financial and Consumer Affairs Authority (FCAA) protects consumer and public interests and supports economic well-being through responsive financial marketplace regulation. FCAA enhances consumer protection through licensing, registration, audit, complaint handling and enforcement activities pursuant to various provincial statutes.¹⁴⁵

¹⁴² The actuarial areas of *The Saskatchewan Insurance Act* (*Insurance Act*) are currently under review as part of the 2014/2015 rewrite to the *Insurance Act*.

¹⁴³ Saskatchewan *Insurance Act*.

¹⁴⁴ Saskatchewan *Insurance Act*.

¹⁴⁵ Financial and Consumer Affairs Authority of Saskatchewan. Accessed September 3, 2014. <http://www.sfsc.gov.sk.ca/>

Finally, the *Insurance Act* also states that “the superintendent may bring actions and institute proceedings in his name of office for the enforcement of any of the provisions of this Act or for the recovery of fees and penalties payable hereunder.”¹⁴⁶ However, the *Insurance Act* does not give the Superintendent the powers to issue and enforce rules by administrative means and to take immediate action thus diverging from ICP best practice.

Possible Enhancements

Possible enhancements on which PACICC might consider commenting include:

- a) Incorporating an explicit reference in the *Insurance Act* regarding the objectives of insurance supervision as they relate to promotion of a fair, safe and stable insurance sector for the benefit and protection of policyholders, as stated in the international best practices; and
- b) Establishing explicit provisions in the *Insurance Act* giving the Superintendent the authority to issue legally enforceable guidelines and rules, and to issue penalties for non-compliance.

ICP 5 – Suitability of Persons

Readers are referred to Part 5 for the discussion of the definition of the actuary in each provincial Insurance Legislation.

The *Insurance Act* does not have a section specific to the actuaries’ roles within the insurance companies. It also does not discuss the notification and revocation rules and requirements as they pertain to the suitability of persons to serve as actuary to Saskatchewan Provincial P&C Insurers.

Possible Enhancements

To improve the consistency across Canadian jurisdictions and across insurance entities, PACICC might consider commenting on possible enhancements to the definition of the term “actuary” as included in the *Insurance Act* to incorporate the following conditions:

- a) An FCIA in good standing;
- b) Meeting any additional qualification requirements defined by the CIA; and
- c) Meeting any additional qualification requirements defined by the provincial authority responsible for insurance supervision.

If the Superintendent decides to continue providing solvency monitoring for Saskatchewan Provincial P&C Insurers, PACICC could also consider commenting on the possibility to include a section within the *Insurance Act* describing the roles of actuaries working with Provincial P&C Insurers. This section would be similar to the Insurance Legislation that has been found to be in agreement with ICP 5 in other provinces.

¹⁴⁶ Saskatchewan *Insurance Act*.

ICP 8 – Risk Management and Internal Controls

The *Insurance Act* does not have a section specific to the actuaries' qualification requirements, rules of appointment and revocation, responsibilities and reporting requirements.

Possible Enhancements

If the Superintendent decides to continue providing solvency monitoring for Saskatchewan Provincial P&C Insurers, PACICC could consider commenting on the inclusion of a section within the *Insurance Act* specifically describing the actuary's qualification requirements, rules of appointment and revocation, as well as the actuary's responsibilities and reporting requirements. This section would be similar to Insurance Legislation that has been found to be in agreement with ICP 8 in other provinces.

ICP 14 – Valuation

Currently, there are no requirements specific to P&C actuaries' valuation of policy liabilities in the *Insurance Act*. However, there are several provisions within the *Insurance Act* referring to actuarial work:

86(5) The annual return must be accompanied by the following:

- (c) if required by the superintendent, an actuary's report that:
 - (i) is conducted and prepared in accordance with this Act and the regulations;
 - and
 - (ii) is satisfactory to the superintendent.

...

86.2(1)(c) every actuary's report prepared pursuant to this Act or the regulations must be prepared in accordance with accepted actuarial practices described in the Standards of Practice of the Canadian Institute of Actuaries, as amended from time to time.

...

94.1(1) Every licensed insurer shall prepare and deliver to the superintendent a report in any form and containing any information that may be prescribed in the regulations.

...

467 The Lieutenant Governor in Council may make regulations:

...

(p.2) respecting any actuary's report that a provincial insurer or reciprocal insurance exchange may be required to submit to the superintendent, including the content, form and scope of the actuary's report and the manner in which it is conducted;

In the response to the questionnaire, the Superintendent stated that they have applied provision 86(5)(c) in the past to request “yearend policies and claim liabilities” actuarial reports from Provincial P&C Insurers. Similarly, provision 86(5)(c) would allow the Superintendent to request other actuarial reports, including a peer review report, if needed. However, there was no mention of a peer review report in the response to the questionnaire.

Possible Enhancements

If the Superintendent decides to continue providing solvency monitoring for Saskatchewan Provincial P&C Insurers, PACICC could consider commenting on the following possible enhancements:

- a) An inclusion of requirements for actuarial valuation specific to Provincial P&C Insurers, similar to the sections dedicated to actuaries’ responsibilities relating to valuation of policy liabilities found in other jurisdictions’ *Insurance Acts*; and
- b) The official adoption of OSFI’s *Guideline E-15* and, if the second possible enhancement identified in relation to ICP 1 is implemented by Saskatchewan, the Superintendent would have the authority to issue *Guideline E-15* as a legally enforceable guideline, and to issue penalties for non-compliance.

ICP 16 – Enterprise Risk Management for Solvency Purposes

Currently, it does not appear that the Superintendent has officially adopted any of OSFI Guidelines relating to enterprise risk management for solvency purposes. However, provision 86(5)(c) allows the Superintendent to request an actuary’s report on as needed basis. In the response to the questionnaire, the Superintendent stated that in the past, they have requested a DCAT report from Provincial P&C Insurers.

Possible Enhancements

If the Superintendent decides to continue providing solvency monitoring for Saskatchewan Provincial P&C Insurers, PACICC could consider commenting on the potential to officially adopt OSFI’s *Guideline E-18*, *Guideline E-19*, *Guideline A-4*, and the *Corporate Governance Guideline*. These guidelines would provide additional guidance to Saskatchewan Provincial P&C Insurers relating to enterprise risk management for solvency purposes and, if the second possible enhancement identified in relation to ICP 1 is implemented by Saskatchewan, the Superintendent would have the authority to issue these guidelines as legally enforceable, and to issue penalties for non-compliance.

Readers are referred to Part 6 of this research paper for more information regarding the details and importance of the above guidelines.

Yukon

ICP 1 – Objectives, Powers and Responsibilities of the Supervisor

The primary legislation that defines the authority responsible for insurance supervision in Yukon is the *Insurance Act*. Part I of the *Insurance Act – Administration and Enforcement*, clearly defines the authority responsible for the insurance supervision in Yukon. Section 3(1) of the *Insurance Act* states the following:

The Commissioner in Executive Council shall appoint a superintendent of insurance who shall exercise the powers and perform the duties vested in or imposed on the superintendent by this or any other Act, shall have the general supervision of the business of insurance in the Yukon and shall see that the laws relating to the conduct thereof are enforced and obeyed.¹⁴⁷

Section 7(1) of the *Insurance Act* also states that “the superintendent may bring actions and commence proceedings in the superintendent’s name of office for the enforcement of any provision of this Act or for the recovery of any fee or penalty payable under this Act.”¹⁴⁸ However, the *Insurance Act* does not give the Superintendent the powers to issue and enforce rules by administrative means and to take immediate action thus diverging from ICP best practice.

Possible Enhancements

Possible enhancements on which PACICC might consider commenting include:

- a) Incorporating an explicit reference in the *Insurance Act* regarding the objectives of insurance supervision as they relate to promotion of a fair, safe and stable insurance sector for the benefit and protection of policyholders, as stated in the international best practices; and
- b) Establishing explicit provisions in the *Insurance Act* giving the Superintendent the authority to issue legally enforceable guidelines and rules, and to issue penalties for non-compliance.

ICP 5 – Suitability of Persons

Readers are referred to Part 5 for a discussion of the definition of the actuary in each provincial Insurance Legislation.

The *Insurance Act* does not have a section specific to the actuaries’ roles within the insurance companies. It also does not discuss the notification and revocation rules and requirements as they pertain to the suitability of persons to serve as actuary to Yukon Territorial P&C Insurers.

¹⁴⁷ Yukon *Insurance Act*.

¹⁴⁸ Yukon *Insurance Act*.

Possible Enhancements

To improve the consistency across Canadian jurisdictions and across insurance entities, PACICC might consider commenting on possible enhancements to the definition of the term “actuary” as included in the *Insurance Act* to incorporate the following conditions:

- a) An FCIA in good standing;
- b) Meeting any additional qualification requirements defined by the CIA; and
- c) Meeting any additional qualification requirements defined by the provincial authority responsible for insurance supervision.

If the Superintendent decides to pursue solvency monitoring for Yukon Territorial P&C Insurers, PACICC could also consider commenting on the possibility to include a section within the *Insurance Act* describing the roles of actuaries working with Provincial P&C Insurers. This section would be similar to the Insurance Legislation that has been found to be in agreement with ICP 5 in other provinces.

ICP 8 – Risk Management and Internal Controls

The *Insurance Act* does not have a section specific to the actuaries’ qualification requirements, rules of appointment and revocation, responsibilities and reporting requirements.

Possible Enhancements

If the Superintendent decides to pursue solvency monitoring for Yukon Territorial P&C Insurers, PACICC could consider commenting on the inclusion of a section within the *Insurance Act* specifically describing the actuary’s qualification requirements, rules of appointment and revocation, as well as the actuary’s responsibilities and reporting requirements. This section would be similar to the Insurance Legislation that has been found to be in agreement with ICP 8 in other provinces.

ICP 14 – Valuation

Currently, there are no requirements specific to P&C actuaries’ valuation of policy liabilities in the *Insurance Act*.

Possible Enhancements

If the Superintendent decides to continue providing solvency monitoring for Yukon Territorial P&C Insurers, PACICC could consider commenting on the following possible enhancements:

- a) An inclusion of requirements for actuarial valuation for Territorial P&C Insurers, similar the sections dedicated to actuaries’ responsibilities relating to valuation of policy liabilities found in other jurisdictions’ *Insurance Acts*; and
- b) The official adoption of OSFI’s *Guideline E-15* and, if the second possible enhancement identified in relation to ICP 1 is implemented by Yukon, the Superintendent would have the

authority to issue *Guideline E-15* as a legally enforceable guideline, and to issue penalties for non-compliance.

ICP 16 – Enterprise Risk Management for Solvency Purposes

Currently, it does not appear that the Superintendent has adopted any of OSFI's guidelines relating to enterprise risk management for solvency purposes. However, this may not be seen as a high priority for the Yukon prudential insurance regulator as there are currently no Yukon Territorial P&C Insurers.

Possible Enhancements

If the Superintendent decides to pursue solvency monitoring for Yukon P&C Insurers, PACICC could consider commenting on the potential to officially adopt OSFI's *Guideline E-18*, *Guideline E-19*, *Guideline A-4*, and the *Corporate Governance Guideline*. These guidelines would provide additional guidance to Yukon Territorial P&C Insurers relating to enterprise risk management for solvency purposes and, if the second possible enhancement identified in relation to ICP 1 is implemented by Yukon, the Superintendent would have the authority to issue these guidelines as legally enforceable, and to issue penalties for non-compliance.

Readers should refer to Part 6 of this research paper for more information regarding the details and importance of the above guidelines.

PART 8 - REVIEW OF REGULATORY AND LEGISLATIVE REQUIREMENTS TO ASSESS SOLVENCY UNDER THE IAIS COMMON FRAMEWORK

The IAIS ComFrame is a “set of international supervisory requirements focusing on the effective group-wide supervision of internationally active insurance groups (IAIGs).”¹⁴⁹ As part of the scope of this research paper, PACICC requested a review of the regulatory and legislative requirements to assess solvency under the ComFrame. Since ComFrame is only applicable to IAIGs and since it is built upon the high level requirements and guidance set out in the ICPs, Part 8 of the research paper only provides a high-level overview of the ComFrame and refers the reader to Part 6 of the report, which discusses the ICPs identified as relevant for the role of actuaries in solvency monitoring.

The main objective of ComFrame is:

to help supervisors to efficiently and effectively cooperate and coordinate by providing a basis for comparability of IAIG regulation and supervisory processes. By coordinating supervisory activities and information about IAIGs at the group-wide level and between group-wide and host supervisors, ComFrame’s goal is to reduce compliance and reporting demands on IAIGs¹⁵⁰.

As IAIGs doing business in Canada would tend to fall under federal solvency supervision, ComFrame is not directly applicable to provincial insurance solvency supervision.

ComFrame consists of three modules:

1. Module 1 – The scope of ComFrame;
2. Module 2 – The IAIG; and
3. Module 3 – The supervisor.

Each module contains several elements within its framework. The first one comprises four elements, all of which have been found to be outside of the scope of this research paper:

1. Element 1 – Identification of internationally active insurance groups;
2. Element 2 – Process of identifying internationally active insurance groups;
3. Element 3 – Scope of ComFrame supervision; and
4. Element 4 – Identification of group-wide supervisor.

¹⁴⁹ IAIS, “Common Framework for the Supervision of Internationally Active Insurance Groups - For Consultation”, October 2013 (modified January 2014).

¹⁵⁰ IAIS, “Common Framework for the Supervision of Internationally Active Insurance Groups - For Consultation”, October 2013 (modified January 2014).

The second module contains six elements, some of which may include information that could be relevant to this project:

1. Element 1 – IAIG’s legal and management structures;
2. Element 2 – Governance;
3. Element 3 – Enterprise Risk Management (ERM);
4. Element 4 – ERM policies;
5. Element 5 – Capital adequacy assessment; and
6. Element 6 – Public disclosure and group reporting.

A detailed review of the various elements included in ComFrame’s second module indicates that only Elements 3 and 5 are relevant to this research paper. However, since ComFrame is largely based on ICPs and the relevant ICPs (ICP 8 and ICP 16) are discussed in Part 6, the discussion is not repeated here. Instead, the reader is referred to Part 6 for more details.

The last module contains three elements, which are outside the scope of this paper:

1. Element 1 – Group-wide supervisory process;
2. Element 2 – Supervisory colleges, cooperation and coordination; and
3. Element 3 – Crisis management and resolution measures among supervisors.

APPENDIX A – REFERENCE SOURCES

- Alberta, “Insurance Act”. Accessed May 14, 2014. <http://canlii.ca/t/526j1>
- Alberta Treasury Board and Finance – Insurance Information. Accessed September 5, 2014. <http://www.finance.alberta.ca/business/insurance/index.html>
- Alberta Treasury Board and Finance – Insurance Information - Insurance Overview. October 7, 2014. <http://www.finance.alberta.ca/publications/insurance/overview.html>
- Alberta Treasury Board and Finance – OSFI guidelines Adopted and Issued by Alberta. Accessed September 17, 2014. <http://www.finance.alberta.ca/publications/insurance/osfi-guidelines-adopted-by-alberta.html>
- Autorité des Marchés Financiers, “Financial Institutions Supervisory Framework – Surintendance de l’encadrement de la solvabilité – 2014”. <http://www.lautorite.qc.ca/files/pdf/reglementation/assurances-inst-depot/cadre-surveillance-eng.pdf>
- Autorité des Marchés Financiers, “Forms and Guides for Financial Sector Participants – Insurance and Deposit Institutions - P&C Insurance”. Accessed September 17, 2014. <http://www.lautorite.qc.ca/en/pc-insurance-pro.html>
- Autorité des Marchés Financiers, “Insurance Guidelines”. Accessed September 17, 2014. <http://www.lautorite.qc.ca/en/quidelines-insurers-pro.html>
- British Columbia, “Financial Institutions Act”. Accessed August 30, 2014. <https://www.canlii.org/en/bc/laws/stat/rsbc-1996-c-141/latest/rsbc-1996-c-141.html>
- British Columbia, Financial Institutions Commission. Accessed September 3, 2014. <http://www.fic.gov.bc.ca/index.aspx?p=fid/index#ins>
- British Columbia, “Insurance Act”, RSBC 2012, c. 1. Accessed May 14, 2014. <http://www.canlii.org/en/bc/laws/stat/rsbc-2012-c-1/111160/rsbc-2012-c-1.html>
- British Columbia, Financial Institutions Commission, “Guide to Intervention – March 2014 – BC Property and Casualty Insurers”, Accessed September 3, 2014. http://www.fic.gov.bc.ca/pdf/insurance_bulletins/GuidetoInterventionP&C.pdf
- Canadian Council of Insurance Regulators. Accessed September 5, 2014. <http://www.ccir-ccrra.org/en/about/>
- Canadian Institute of Actuaries, “Standards of Practice”, February 1, 2014. Accessed May 14, 2014. <http://www.cia-ica.ca/docs/default-source/standards/sc020114e.pdf?sfvrsn=0>
- Dr. Norma L. Neilson, "Evaluating Federal and Provincial Solvency Standards in Canada" Journal of Insurance and Risk Management, Vol. 76 (4), January 2009, pages 39-56.

- J. Friedland and I. Tao, “Property and Casualty Insurance Compensation Corporation (PACICC) – The P&C Actuary’s Role in Solvency Monitoring As Set Out in Legislation, Regulatory Requirements, And Professional Standards of Practice”, KPMG, October 2011.
<http://www.pacicc.com/publications/pages/publications/Actuary's%20Role%20in%20Solvency%20Monitoring.pdf>
- Government of Canada, “Insurance Companies Act”. Accessed May 14, 2014.
<http://canlii.ca/t/52657>
- Government of Saskatchewan, Financial and Consumer Affairs Authority. Accessed September 17, 2014. <http://www.sfsc.gov.sk.ca/>
- International Actuarial Association, “International Standards of Actuarial Practice 1 – General Actuarial Practice”, November 2012 (Modified October 2013). Accessed May 14, 2014.
http://www.actuaries.org/CTTEES_ASC/Documents/ReformattedISAP1FINALOCTOBER_correctedJan2014.pdf
- International Association of Insurance Supervisors. Accessed September 17, 2014.
<http://www.iaisweb.org/>
- International Association of Insurance Supervisors, “Common Framework for the Supervision of Internationally Active Insurance Groups – For Consultation”, October 2013 (Modified January 2014). Accessed May 14, 2014. http://www.iaisweb.org/view/element_href.cfm?src=1/20871.pdf
- International Association of Insurance Supervisors, “Compiled Comments on Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) – 17-Oct13 to 31-Dec-13”. Accessed May 14, 2014.
http://www.iaisweb.org/view/element_href.cfm?src=1/20870.pdf
- International Association of Insurance Supervisors, “Insurance Core Principles, Standards, Guidance and Assessment Methodology”, October 2011 (revised October 2013). Accessed May 14, 2104. http://www.iaisweb.org/view/element_href.cfm?src=1/20567.pdf
- International Monetary Fund, “Canada – Financial Sector Stability Assessment”, February 2014. Accessed May 14, 2014. <http://www.imf.org/external/pubs/ft/scr/2014/cr1429.pdf>
- International Monetary Fund, “Canada – Financial Sector Assessment Program – Insurance Core Principles – Detailed Assessment of Observance”, March 2014. Accessed May 14, 2014.
<https://www.imf.org/external/pubs/ft/scr/2014/cr1472.pdf>
- International Monetary Fund, “Financial Sector Assessment Program Update – Australia: Insurance Core Principles Detailed Assessment of Observance), November 2012.
<https://www.imf.org/external/pubs/ft/scr/2012/cr12312.pdf>
- International Monetary Fund, “Financial Sector Assessment Program Update – France: Insurance Core Principles – Detailed Assessment of Observance), June 2013.
<http://www.imf.org/external/pubs/ft/scr/2013/cr13181.pdf>
- Manitoba, “The Insurance Act”. Accessed May 14, 2014. <http://canlii.ca/t/5278s>

- New Brunswick, “Insurance Act”. Accessed May 14, 2014. <http://canlii.ca/t/522zc>
- Newfoundland and Labrador, “Insurance Companies Act”. Accessed May 14, 2014. <http://canlii.ca/t/kv1g>
- Northwest Territories and Nunavut, “Insurance Act”. Accessed May 14, 2014. <http://canlii.ca/t/lbxg>
- Nova Scotia, Finance and Treasury Board, Office of the superintendent of Insurance. Accessed September 17, 2014. <http://www.novascotia.ca/finance/en/home/insurance/superintendentofinsurance.aspx>
- Nova Scotia, “Insurance Act”. Accessed May 14, 2014. <http://canlii.ca/t/523h3>
- Nunavut, “Insurance Act”. Accessed September 5, 2014. <http://www.fin.gov.nt.ca/documents/taxation/insurance/acts/NUNAVUT%20Insurance%20Act%20R.S.N.W.T.%201988,c.I-4.pdf>
- Office of the Superintendent of Financial Institutions Canada (2012), “Guideline E-15: Appointed Actuary: Legal Requirement, Qualification and External Review”, September 2012. Accessed September 17, 2014. http://www.osfi-bsif.gc.ca/Eng/Docs/e15_final.pdf
- Office of the Superintendent of Financial Institutions Canada (2006), “Guideline E-15: Appointed Actuary: Legal Requirement, Qualification and External Review”, November 2006.
- Office of the Superintendent of Financial Institutions Canada (2014), “Memorandum for the Appointed Actuary’s Report on Property and Casualty Insurance Business”, Accessed October 8, 2014. http://osfi-bsif.gc.ca/Eng/Docs/PC_AA_Memo_2014.pdf
- Ontario, “Financial Services Commission of Ontario Act”. Accessed September 7, 2014. http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_97f28_e.htm
- Ontario, “Insurance Act”. Accessed May 14, 2014. <http://canlii.ca/t/523kl>
- Prince Edward Island, Department of Environment, Labour and Justice. Accessed September 17, 2014. <http://www.gov.pe.ca/jps/index.php3?number=1027253&lang=E>
- Prince Edward Island, “Insurance Act”. Accessed May 14, 2014. <http://canlii.ca/t/51xls>
- Québec, “An Act Respecting Insurance”. Accessed May 14, 2014. <http://canlii.ca/t/52394>
- Québec, “An Act Respecting the Autorité des Marchés Financiers”, Accessed September 5, 2014. http://www2.publicationsduquebec.gouv.qc.ca/dynamicSearch/telecharge.php?type=2&file=%2F%2FA_33_2%2FA33_2_A.htm
- Saskatchewan, “The Saskatchewan Insurance Act”. Accessed May 14, 2014. <http://canlii.ca/t/51wr3>
- Yukon, “Insurance Act”. Accessed May 14, 2014. <http://canlii.ca/t/525jz>

APPENDIX B – SAMPLE QUESTIONNAIRE

1. Are you confident in the qualifications of the actuary providing the opinion? Are you satisfied with the definition of the actuary as it is stated in the Insurance Act for your province? Do you have any possible enhancements that you feel would improve the regulators and the public's confidence in the certification and the experience of the actuary providing the opinion?
2. In your opinion, what actuarial services should require an actuarial opinion? What actuarial services do you believe should not require an actuarial opinion? In your province, what actuarial services require an actuarial opinion?
3. Does your province use actuaries to review rate filings? If so, what organization is in charge of the rate filings and how closely do you work with them? Are you satisfied with your province's requirements for actuarial involvement in the ratemaking process? If not, do you have any possible enhancements?
4. Do you have specific requirements for insurance organizations' actuaries to opine on policy liabilities for companies that operate in your province? Are you satisfied with your province's requirements for actuarial involvement in the reserving process? If not, do you have any possible enhancements? Do you use actuaries to review policy liabilities for companies that operate in your province?
5. Do you use actuaries to review solvency requirements in your province? If you do, are they employees or consultants? Are you satisfied with your province's requirements for actuarial involvement in the solvency process? If not, do you have any possible enhancements?
6. Do you feel the Insurance Act for your province can be improved from the actuarial perspective? If so, how?
7. Are you planning to increase the scope of your supervisory activities? If so, which ones? If you believe that some parts of the Insurance Act in your province are missing compared to the Insurance Core Principles (http://www.iaisweb.org/view/element_href.cfm?src=1/20567.pdf), are you in the process of adding them to the Insurance Act for your province?

APPENDIX C – OSFI 2014 MEMORANDUM FOR THE APPOINTED ACTUARY'S REPORT ON PROPERTY AND CASUALTY INSURANCE BUSINESS

TABLE OF CONTENTS

1. INTRODUCTION
2. NOTE ON REGULATORY REQUIREMENTS
 - 2.1 Application of Professional Standards to the Appointed Actuary's Report and Valuation
 - 2.2 Differences (if any) Between Actuary's Valuations and Corresponding Annual Return Liabilities
 - 2.3 Filing of Reports
 - 2.4 Persons Signing the Appointed Actuary's Report
3. SPECIAL LINE OF BUSINESS CONSIDERATIONS
 - 3.1 Marine Insurance
 - 3.2 Title Insurance
 - 3.3 Accident and Sickness Insurance
4. FORMAT OF THE APPOINTED ACTUARY'S REPORT
 - 4.1 Report Outline
 - 4.2 Table of Contents
5. CONTENTS OF THE APPOINTED ACTUARY'S REPORT
 - 5.1 Introduction
 - 5.2 Expression of Opinion
 - 5.3 Supplementary Information Supporting the Opinion
 - 5.4 Executive Summary
 - 5.5 Description of Company
 - 5.5.1 Ownership and Management
 - 5.5.2 Business
 - 5.5.3 Reinsurance
 - 5.5.4 Materiality Standards
 - 5.6 Data
 - 5.7 Claims Liabilities
 - 5.7.1 Undiscounted Claims Liabilities
 - 5.7.2 Claims Expenses
 - 5.7.3 Comparison of Actual Experience with Expected Experience in Prior Year-End Valuations
 - 5.7.4 Discounted Claims Liabilities
 - 5.8 Premium Liabilities
 - 5.9 Other Liabilities/Other Assets

6. SPECIFIC DISCLOSURE REQUIREMENTS
 - 6.1 Dynamic Capital Adequacy Testing (DCAT)
 - 6.2 New Appointment
 - 6.3 Annual Required Reporting to the Board or Audit Committee
 - 6.4 Continuing Professional Development Requirements
 - 6.5 Disclosure of Compensation
 - 6.6 Re-submitting the report
 - 6.7 Reporting Relationships of the Appointed Actuary
7. REVIEW PROCEDURES
 - 7.1 OSFI's Review Procedure
 - 7.2 Peer Review Program
 - 7.3 Filing Directions
8. UNPAID CLAIMS AND LOSS RATIO ANALYSIS EXHIBIT
 - 8.1 Introduction
 - 8.2 Data
9. Appendix I - Expression of Opinion
10. Appendix II - Unpaid Claims and Loss Ratio Analysis Exhibit
11. Appendix III - Annual Return Lines of Business
12. Appendix IV - Unpaid Claims and Loss Ratio Analysis Exhibit
 - 12.1 Information Contained in the Unpaid Claims and Loss Ratio Analysis Exhibits (by Column)
 - 12.2 Information Contained in the Unpaid Claims and Loss Ratio Analysis Exhibit (by Line)
 - 12.3 Claims Reported on Other than an Accident Year Basis