



Exposure Draft

Exposure Draft to Revoke the Current Standards of Practice Entitled Recommendations – Dividend Determination and Illustration and Explanatory Notes in Amplification of Certain Dividend Recommendations, and Introduce a New Subsection Relating to Participating Policy Dividend Determination in Part 2000 – Practice-Specific Standards for Insurance

Actuarial Standards Board

August 2012

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Memorandum

To: All Fellows, Affiliates, Associates and Correspondents of the Canadian Institute of Actuaries and Other Interested Parties

From: A. David Pelletier, Chair
Actuarial Standards Board

Stephen Haist, Chair
Designated Group

Date: August 8, 2012

Subject: **Exposure Draft to Revoke the Current Standards of Practice Entitled Recommendations – Dividend Determination and Illustration and Explanatory Notes in Amplification of Certain Dividend Recommendations, and Introduce a New Subsection Relating to Participating Policy Dividend Determination in Part 2000 – Practice-Specific Standards for Insurance**

Deadline for comments: **September 30, 2012**

INTRODUCTION

The attached exposure draft was approved by the Actuarial Standards Board (ASB) on August 2, 2012.

A [notice of intent](#) on this matter was published on February 6, 2012, with a comment period ending on March 31, 2012.

No comments were received.

BACKGROUND

When most of the standards of practice were consolidated in 2002, the existing standards of practice relating to dividend determination and illustration were left intact. The rationale at that time was that the majority of the contents of these standards were already covered in the general standards and the remaining content may be better suited to an educational note. Given this, the existing standards relating to dividend determination and illustration would remain intact until such further guidance was made available.

The CIA Practice Council intends to release such supplementary guidance in the coming year.

The existing dividend standard of practice documents entitled [Recommendations – Dividend Determination and Illustration](#) and [Explanatory Notes in Amplification of Certain Dividend Recommendations](#) (both as amended June 1987) are inconsistent with the other standards of practice in form and content, and the Actuarial Standards Board believes that this anomaly should be addressed

OBJECTIVE

The objective of the ASB is to incorporate appropriate standards of practice relating to dividend determination within part 2000 – Practice-Specific Standards for Insurance.

SUMMARY OF PROPOSED CHANGES AND DESIRED OUTCOMES

The proposed changes would be incorporated into the new section 2700 of the Practice-Specific Standards for Insurance.

As reported in the notice of intent, the substance of current recommendations 1 through 23 in the existing standard of practice, Recommendations – Dividend Determination and Illustration, beyond those aspects covered by the proposed section 2700, will be reflected in an educational note. The existing standards of practice relating to dividend determination and illustration will be revoked at the same time as the new section 2700 of the Standards of Practice is adopted, and these should both be effective simultaneous with the date that guidance in the form of an educational note is published by the CIA.

TIMETABLE FOR COMPLETION

The ASB is targeting a time-line culminating in adoption of final standards of practice by June 30, 2013. Early implementation will not be permitted.

DESIRED FEEDBACK

The ASB is soliciting feedback on the proposed wording of section 2700 and the proposed revocation of the two current dividend standards of practice documents.

Parties wishing to comment on this exposure draft should direct those comments to Stephen Haist at shaist@eckler.ca by **September 30, 2012**. A copy should also be sent to CIA resident actuary Chris Fievoli at chris.fievoli@actuaries.ca. No specific forums for submitting comments, other than through submitting written comments, are planned regarding this notice.

The Actuarial Standards Board has created a designated group that is responsible for the amendment of this standard of practice: Stephen Haist (chair), John Dark, Ty Faulds, Lesley Thomson, Jacques Tremblay, and Phil Watson.

Due process has been followed in the creation of this exposure draft.

ADP, SH

1110 DEFINITIONS

- .01 Each term set over dotted underlining has the meaning given in this section and has its ordinary meaning otherwise (e.g., external user).
- .02 Accepted actuarial practice is the manner of performing work in Canada in accordance with the Rules and these Standards of Practice. Standards of Practice are the responsibility of the Actuarial Standards Board and approval of standards and changes to standards is made through a process that involves consultation with the actuarial profession and other interested parties. Unless the context requires otherwise, references to accepted actuarial practice refer to accepted actuarial practice for work in Canada. [*pratique actuarielle reconnue*]
- .03 Actuarial cost method is a method to allocate the present value of a plan's obligations to time periods, usually in the form of a service cost and an accrued liability. [*méthode d'évaluation actuarielle*]
- .04 Actuarial present value method is a method to calculate the lump sum equivalent at a specified date of amounts payable or receivable at other dates as the aggregate of the present values of each of those amounts at the specified date, and taking into account both the time value of money and contingent events. [*méthode de la valeur actuarielle*]
- .04.1 Actuary, as it is used in these standards, means anyone bound by these standards for work in Canada. [*actuaire*]
- .05 Anti-selection is the tendency of one party in a relationship to exercise options to the detriment of another party when it is to the first party's advantage to do so. [*antisélection*]
- .06 Appointed actuary of an entity is an actuary formally appointed, pursuant to legislation, by the entity to monitor the financial condition of that entity. [*actuaire désigné*]
- .07 Appropriate engagement is one that does not impair the actuary's ability to conform to the rules. [*mandat approprié*]
- .08 Benefits liabilities are the liabilities of a plan in respect of claims incurred on or before a calculation date. [*obligations liées aux prestations*]
- .09 Best estimate means without bias, neither conservative nor unconservative. [*meilleure estimation*]
- .09.1 Bylaws means the bylaws of the Canadian Institute of Actuaries, as amended from time to time. [*Statuts administratifs*]
- .10 Calculation date is the effective date of a calculation; e.g., the balance sheet date in the case of a valuation for financial statements. It usually differs from the report date. [*date de calcul*]

- .11 Case estimate at a calculation date is the unpaid amount of one of, or a group of, an insurer's reported claims (perhaps including the amount of claim adjustment expenses), as estimated by a claims professional according to the information available at that date. [*évaluation du dossier*]
- .12 Claim adjustment expenses are internal and external expenses in connection with settlement of claims. [*frais de règlement des sinistres*]
- .13 Claim liabilities are the portion of insurance contract liabilities in respect of claims incurred on or before the balance sheet date. [*passif des sinistres*]
- .14 Contingent event is an event which may or may not happen, or which may happen in more than one way or which may happen at different times. [*éventualité*]
- .15 Contribution is a contribution by a participating employer or a plan member to fund a benefits plan. [*cotisation*]
- .15.0 Contribution principle is a principle of policyholder dividend determination whereby aggregate divisible surplus is divided among policies in the same proportion as policies are considered to have contributed to divisible surplus. [*principe de contribution*]
- .15.1 Credibility is a measure of the predictive value attached to an estimate based on a particular body of data. [*crédibilité*]
- .16 Definitive means permanent and final. [*décision définitive*]
- .17 Development of data with respect to a given coverage period is the change in the value of those data from one calculation date to a later date. [*matérialisation*]
- .18 Domain of actuarial practice is the measurement of the current financial implications of future contingent events. [*domaine de la pratique actuarielle*]
- .19 Early implementation means the implementation of new standards before their effective date. [*mise en œuvre anticipée*]
- .20 Earnings-related benefit is a benefit whose amount depends on the recipient's earnings. [*régime salaire de carrière*]
- .21 External user is a user who is not an internal user. [*utilisateur externe*]
- .22 External user report is a report whose users include an external user. [*rapport destiné à un utilisateur externe*]
- .23 Financial condition of an entity at a date is its prospective ability at that date to meet its future obligations, especially obligations to policy owners, members, and those to whom it owes benefits. Financial condition is sometimes called "future financial condition". [*santé financière*]
- .24 Financial position of an entity at a date is its financial state as reflected by the amount, nature, and composition of its assets, liabilities, and equity at that date. [*situation financière*]
- .25 To fund a plan is to dedicate assets to its future benefits and expenses. Similarly for "funded" and "funding". [*provisionner*]

- .25.1 Funded status is the difference between the value of assets and the actuarial present value of benefits allocated to periods up to the calculation date by the actuarial cost method, based on a valuation of a pension plan. [*niveau de provisionnement*]
- .26 Going concern valuation is a valuation which assumes that the entity to which the valuation applies continues indefinitely beyond the calculation date. [*évaluation en continuité*]
- .27 Indexed benefit is a benefit whose amount depends on the movement of an index like the Consumer Price Index. [*prestation indexée*]
- .27.01 Indicated rate is the best estimate of the premium required to provide for the corresponding expected claims costs, expenses, and provision for profit. [*taux indiqué*]
- .27.1 Insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance contract includes group insurance, third party contracts where the owner of the contract and the person who is compensated (the policyholder) differ, and all like arrangements substantively in the nature of insurance.¹ [*contrat d'assurance*]
- .27.2 Insurance contract liabilities in an insurer's balance sheet are the liabilities at the balance sheet date on account of the insurer's insurance contracts, including commitments, which are in force at that date or which were in force before that date. [*passif des contrats d'assurance*]
- .28 Insurer is the party that has an obligation under an insurance contract to compensate a policyholder if an insured event occurs. Insurer includes a fraternal benefit society and the Canadian branch of a foreign insurer, but does not include a public personal injury compensation plan.¹ [*assureur*]
- .29 Internal user is the actuary's client or employer. Internal user and external user are mutually exclusive. [*utilisateur interne*]
- .30 Internal user report is a report all of whose users are internal users. [*rapport destiné à un utilisateur interne*]
- .31 Margin for adverse deviations is the difference between the assumption for a calculation and the corresponding best estimate assumption. [*marge pour écarts défavorables*]
- .32 New standards means new standards, or amendment or rescission of existing standards. [*nouvelles normes*]
- .33 Periodic report is a report that is repeated at regular intervals. [*rapport périodique*]

¹ The wording of the first sentence of this definition is identical to the corresponding definition appearing in IFRS 4 Appendix A, as of November 2009. The second sentence is explanatory and not part of that definition.

- .34 Plan Administrator is the person or entity with overall responsibility for the operation of a benefit plan. [*administrateur d'un régime*]
- .35 Policy liabilities in an insurer's balance sheet are the liabilities at the balance sheet date on account of the insurer's policies, including commitments, which are in force at that date or which were in force before that date. Policy liabilities consist of insurance contract liabilities and liabilities for policy contracts other than insurance contracts. [*passif des polices*]
- .35.1 Policyholder is a party that has a right to compensation under an insurance contract if an insured event occurs.² [*titulaire de police*]
- .36 Practice committee means the committee or committees of the Canadian Institute of Actuaries, either standing or ad hoc, to which the Practice Council of the Canadian Institute of Actuaries has assigned responsibility for the practice area or areas to which particular Standards of Practice apply. [*commission de pratique*]
- .37 Premium liabilities are the portions of insurance contract liabilities that are not claim liabilities. [*passif des primes*]
- .38 Prescribed means prescribed by these standards. [*prescrit*]
- .38.1 Property and casualty insurance is insurance that insures individuals or legal persons
having an interest in tangible or intangible property, for costs arising from loss of or damage to such property (e.g., fire, fidelity, marine hull, warranty, credit, legal expense and title insurance), or
for damages to others or costs arising from the actions of such persons (e.g., liability and surety bonds) and for costs arising from injury to such persons (e.g., automobile accident benefits insurance). [*assurances IARD*]
- .39 Provision for adverse deviations is the difference between the actual result of a calculation and the corresponding result using best estimate assumptions. [*provision pour écarts défavorables*]
- .40 Public personal injury compensation plan means a public plan
whose primary purpose is to provide benefits and compensation for personal injuries,
whose mandate may include health and safety objectives and other objectives ancillary to the provision of benefits and compensation for personal injuries, and
that has no other substantive commitments.

The benefits and compensation provided under such public plans are defined by statute. In addition, such public plans have monopoly powers, require compulsory coverage except for those groups excepted by legislation or regulation, and have the authority to set assessment rates or premiums. [*régime public d'assurance pour préjudices corporels*]

² The wording of this definition is identical to the corresponding definition appearing in IFRS 4 Appendix A, as of November 2009.

- .41 Recommendation means an italicized recommendation in these standards. Similarly for “recommend”. [*recommandation*]
- .41.1 Related experience includes premiums, claims, exposures, expenses, and other relevant data for events analogous to the insurance categories under consideration other than the subject experience and may include established rate levels or rate differentials or external data. [*expérience connexe*]
- .42 Report is an actuary’s oral or written communication to users about his or her work. Similarly for “to report”. [*rapport*]
- .43 Report date is the date on which the actuary completes the report on his or her work. It usually differs from the calculation date. [*date du rapport*]
- .43.1 Reinsurance recoverables in an insurer’s balance sheet are the assets at the balance sheet date on account of reinsurance treaties, including commitments, which are in force at that date or which were in force before that date. [*sommes à recouvrer auprès des réassureurs*]
- .44 Report pursuant to law is a report for which the law requires an actuary’s opinion. [*rapport en vertu de la loi*]
- .45 Rule means a rule in the Canadian Institute of Actuaries’ Rules of Professional Conduct. [*règle*]
- .46 Scenario is a set of consistent assumptions. [*scénario*]
- .47 Service cost is that portion of the present value of a plan’s obligations which an actuarial cost method allocates to a time period, excluding any amount for that period in respect of unfunded accrued liabilities. [*cotisation d’exercice*]
- .48 Standard reporting language is standard language for an external user report. [*libellé du rapport type*]
- .48.1 Subject experience includes premiums, claims, exposures, expenses, and other data for the insurance categories under consideration. [*expérience visée*]
- .49 Subsequent event is an event of which an actuary first becomes aware after a calculation date but before the corresponding report date. [*événement subséquent*]
- .49.1 Trend is the tendency of data values to change in a general direction from one coverage period to a later coverage period. [*tendance*]
- .50 Use means use by the actuary, usually in the context of use of another person’s work. [*utilisation*]

- .51 User means an intended user of the actuary's work. [*utilisateur*]
- .52 Virtually definitive means to become definitive upon completion of one or more actions which are seen as formalities. [*pratiquement définitive*]
- .53 Work means the actuary's work within the domain of actuarial practice and usually includes
acquisition of knowledge of the circumstances of the case,
obtaining sufficient and reliable data,
selection of assumptions and methods,
calculations and examination of the reasonableness of their result,
use of other persons' work,
formulation of opinion and advice,
reporting, and
documentation. [*travail*]

2700 POLICYHOLDER DIVIDEND DETERMINATION**2710 SCOPE**

- .01 Section 2700 applies to advice provided on policyholder dividend determination on Canadian individual life, annuity and health policies.

2720 REPORT ON POLICYHOLDER DIVIDENDS

- .01 *There should be a written report which documents the advice on policyholder dividend determination, and which describes the framework of facts, assumptions and procedures upon which the advice was based.*
- .02 *The report should include:*
- a description of the process used to determine dividends;*
 - the manner in which policy factors and experience factors are reflected in that process; and*
 - the methodology used to calculate dividends, including specific policy factors and experience factors used.*
- .03 *The report should state whether or not the contribution principle has been followed, and, if it has not been followed, the report should describe the deviations and the rationale for making them. [Effective Month XX, 20XX]*