



Office of the Superintendent of  
Financial Institutions Canada

Bureau du surintendant des  
institutions financières Canada

# Non-Life Loss Reserving Practices and Documentation

**IAIS – ASSAL Training Seminar**  
**April 29, 2009**  
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BSIF

Canada 

# Canadian Requirements

- **Discounting**
  - Required Margins
  - Similar to IFRS 4 Proposal
- **Actuarial Opinion Required**
- **Actuarial Report Filed with Regulator**

# Report Outline

- **Introduction**
- **Opinion**
- **Executive Summary**
- **Company Overview**
- **Data Overview**
- **Unpaid Claims**
- **Premium Liabilities**
- **Exhibits and Appendices**



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# Introduction

- **Company**
- **Date**
- **Name and contact information of the Actuary**
- **Purpose/Scope of the report**

# Opinion

- **Compare carried provisions with Actuary's estimate**
- **Summary of the results for the different business segments showing how the total provision is derived**



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# Executive Summary

- **Summary of key results**
  - Accident year vs calendar year
  - Unusual losses or significant concerns
- **Comment on development of prior years' losses**
- **Discuss changes in methods and their financial impact**
- **Disclose any departure from accepted actuarial practice**



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# Company Overview

- **Ownership and Management**
  - Especially changes
- **Business**
  - Lines of business
  - Underwriting policies
  - Claims policies
- **Reinsurance**
  - Description of all significant treaties covering several years
    - Ideally covering all years which have unpaid claims



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# Overview of Data

- **Sources of data**
- **Verification procedures**
  - Reliance on others
    - Accountants
    - Other actuaries
- **Completeness of data**
  - Non reviewed business segments



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# Unpaid Claims

- **To meet Canadian Requirements we need:**
- **Undiscounted Unpaid Claims**
- **Selection of Payment Patterns**
- **Selection of Interest Rate**
- **Selection of Margins**

**I will restrict my comments to the undiscounted unpaid claims**

# Undiscounted Unpaid Claims

- **Gross**
- **Ceded**
- **Net**

**Two of the above provisions are calculated and the third obtained by simple arithmetic**

**Practices vary depending on the data, lines of business and reinsurance**

**We have no preference but all provisions must be reasonable**



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# Undiscounted Unpaid Claims

## Considerations

- **Frequency/severity trends**
- **Policy or coverage changes**
- **Change in reinsurance**
- **Change in reporting or payment of claims**
- **Changes in case reserving practices**
- **Regulatory changes**



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# Claims Expenses

- **Internal or Unallocated**
  - Usually estimated using the paid to paid ratio and the assumption that 50% of the expense is incurred when the claim is reported
- **External or Allocated**
  - Can be included with the claims data or reviewed separately

# Undiscounted Unpaid Claims

- **Favourable/unfavourable development**
  - We require 5 years of data by line and in total
  - We encourage actuaries to show 10 years
- **This is a very valuable tool for the supervisor**
  - The actuary should comment on the reasons for the development and changes made to address any relevant issues

# Premium Liabilities

## **Balance Sheet Presentation**

- **Unearned Premiums**
- **Deferred Acquisition Expenses**
- **Other assets/liabilities**
- **Premium Deficiency**

## **Actuary's Calculation**

- **Expected losses & expenses on policies in force**
- **Premium adjustments on policies and reinsurance**
- **Commission adjustments including agent/broker profit commissions**



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# Other Liabilities

- **Self-Insured Retentions**
- **Subrogation and Salvage**
- **Other Assets/Liabilities**



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# External Review Procedures

- **External Auditor**
  - Actuarial Specialist
- **External Reviewer**
  - Once every 3 years
  - Actuary should discuss the status of any recommendations made in past reviews



# Questions



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