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THE NEW LIFE COMPANY ANNUAL STATEMENTS IN CANADA

by David R. Johnston

Out of the labors of several groups over the last seven years* a new method of financial reporting for Canadian life insurance companies came into use beginning with year-end 1978. This article describes the changes, contrasting them with GAAP developments in the United States.

The objective was the same in each country—to modify the traditional conservatism of assets and liabilities so that reported earnings would no longer differ so widely from those that emerge under Generally Accepted Accounting Principles used for other industries. The Canadian approach nevertheless recognizes the special nature of life insurance by maintaining conservative margins in the balance sheet for protection of policyholders.

Major differences between United States practice and the new Canadian procedure are: (1) the new Canadian system applies equally to mutual and stock life companies; (2) the new Canadian law does not provide specific limits on valuation bases to be used; (3) by law the policy reserves in Canada must be the same in statements for policyholders and shareholders as for statutory reporting.

The major changes introduced by the new legislation are:

(i) *Improved assumptions for valuation of liabilities*

The actuary used to have to certify that his reserves made "good and sufficient" provision for future obligations, and that they satisfied statutory requirements. Maximum interest assumptions were 3½% for life insurance and 4% for annuities, except that, if the actuary felt a higher rate was more appropriate for a block of business, he could seek its approval from the Superintendent of Insurance. The law also specified a number of acceptable mortality tables, again allowing the actuary to seek approval of another table if he desired.

Now the valuation actuary must give his opinion that the valuation assumptions used, for both existing and new business, are appropriate to the circumstances of the company and the policies in force. (Also, he must declare that the reserves make good and sufficient provision for future obligations, and are not less than reserves calculated on the minimum basis described later). The assumptions must be acceptable to the Superintendent. No interest rates or mortality tables are specified, either in law or regulations. Furthermore, the use of withdrawal rates and provisions for administrative expenses and dividend expectations are now contemplated by the law.

These changes have suddenly given Canadian actuaries much more responsibility in determining policy reserves. In anticipation of this added responsibility, the Canadian Institute of Actuaries formed a committee to study the subject.

This committee has worked from the premise that there is now a need for professional standards in the valuation of life insurance policies, and that such standards not be merely a reaction to the new legislation, but should constitute good profes-

*See Michael Rosenfelder's article, *The Actuary*, January 1976. The participating bodies were the Canadian Institute of Chartered Accountants, the Canadian Institute of Actuaries and the Canadian Life Insurance Association, with their views brought together and put into law by the Federal Superintendent of Insurance.

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EDITORIAL BOARD CHANGES

Early retirement (retroactive to December 1978) has been requested by *Colin E. Jack*, who has aided this Newsletter meritoriously since January 1975. His services to *The Actuary* are warmly commended.

Michael B. McGuinness of Toronto has joined us as an Associate Editor. Canadians, in particular, will please regard his requests for contributions as authoritative.

Charles A. Groeschell of Milwaukee is welcomed as Competition Editor. His sole occupancy thereof awaits only "C.E.'s" announcement of results of Competition Ω.

Andrew C. Webster is promoted to Editor Emeritus.

E.J.M.

ACTUARIES AND COMMUNICATION

by Linda M. Delgadillo
Society Communications Manager

The other day in the meat market, Ed the butcher asked me what kind of job I had and whom I worked for. Imagine his puzzled look when I told him, "Society of Actuaries."

"Oh," he carefully replied, "that sounds interesting."

When I asked him if he knew what an actuary was, he thought for a moment and then said, "Well, it rhymes with mortuary—is there a connection?"

"Close enough," I answered.

Then I thought a while longer about how I could explain the actuary's work to Ed. I knew he had a reputation around the neighborhood as a betting man, so I talked about actuaries in betting terms.

I said, "Well, Ed, actuaries use numbers—you know, statistics—to predict the future. They study the chances of something happening, bet on the odds,

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