

**1989 VALUATION ACTUARY
SYMPOSIUM PROCEEDINGS**

REPORT ON THE RESULTS OF THE TRIAL COMPLIANCE QUESTIONNAIRE

MR. PAUL M. WINOKUR: I would first like to provide an historical overview of the steps which have brought us to the present date (Slide 1). In 1979 the Council of the Canadian Institute of Actuaries released binding recommendations for life insurance company financial reporting. Along with these recommendations came explanatory notes which were not considered binding. It was not until late 1985 that the phrase "standards of practice" was formally enshrined in the Institute, and it was confirmed that the noted recommendations are part of the standards of practice as are all technique papers.

At the annual meeting in Halifax in 1987, there was a great deal of discussion from the floor, and no consensus was evident on the perceived need for peer review within the Institute.

One year later in Calgary, Council decided that for life company valuation actuaries a detailed questionnaire would provide for the short-term demonstration that the Institute had means of monitoring compliance with standards of practice. As you may recall, this was one of the conditions for us being able to proceed to GAAP in 1989 as originally planned, or as now we believe it will be done for 1990. The open forum held in Calgary generated

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SLIDE 1

MONITORING OF COMPLIANCE WITH STANDARDS OF PRACTICE

- JUNE 1979 - Council issues binding life company financial reporting recommendations.
- NOV. 1985 - Council enshrines the "standards of practice" concept
- JUNE 1987 - Halifax -- plenary session and debate on peer review
- JUNE 1988 - Calgary -- Council decides on questionnaire as limited form of external peer review
 - Open forum on professional conduct
 - Members are notified of compliance questionnaire
- NOV. 1988 - Montreal -- open forum on compliance
- JAN. 1989 - Release to all Valuation Actuaries of draft questionnaire
 - Comments deadline May 1
- MARCH 1989 - Whistler -- open forum on peer review
- JUNE 1989 - Toronto -- open forum on standards
- NOV. 1989 - Anticipated release of final questionnaire with respect to 1989 year-end along with draft questionnaire with respect to 1990 year-end.

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very little debate on whether we should indeed demonstrate monitoring of compliance, but rather concentrated more on the means of the demonstration.

In January of 1989 the draft questionnaire consisting of 51 detailed questions on 13 pages was released to all valuation actuaries and other interested parties. The deadline for comments was May 1.

We have received about 25 completed questionnaires, along with another 15 letters with questions and comments. Our Task Force has released an interim report to Council for its consideration. The final version of the questionnaire, taking into account the comments from the membership, would be released in November, with respect to 1989 year-end.

The life subcommittee of the Task Force responsible for drafting the life company valuation questionnaire is chaired by Yvon Charest, and the other members of the subcommittee are Richard LaBelle and Roger MacDonald.

Some of the comments we have received from the members highlight the fact that many members use implicit methods or approximation techniques, and they are concerned that if they disclose this in the questionnaire they will be deemed to be in noncompliance with our standards of practice and therefore subject to disciplinary procedures. They believe

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that, if they are not complying with the "letter" of the Recommendations as opposed to the "spirit" of the Recommendations and if they are not complying in a very explicit manner, then this could cause them great problems.

Another common complaint has been that different answers would have to be given to a specific question depending on the line of business, the product or the territory for which the valuation has been made. In some of the multinational companies, there are effectively several in-house valuation actuaries who all report to the chief actuary, who then does the final certification for the company as a whole. In some of these companies the chief actuary receives certificates from the other individuals.

There seems to be a significant amount of concern about the way the questionnaires will be reviewed and, of course, the potential impact on the member should he or she become subject to the disciplinary process. The game plan for 1989 year-end would be that the submitted questionnaires would be filed sometime soon after year-end and would be reviewed by our Committee on Review. I am confident that the Committee on Review would do a thorough job and would certainly be looking at any explanations where a member had disclosed that he or she had not complied with standards of practice.

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One other area of concern was the scope of the questionnaire. First, the questionnaire is intended to cover financial reporting recommendations in Canada. Therefore, for those of you who certify companies in, say, the Caribbean, I do not believe it is Council's intent to have you complete the questionnaire with respect to Caribbean companies with no business in Canada. We do, however, intend that these do apply to the Canadian branches of nonresident companies. It is for some of these companies, particularly those with an insignificant amount of business in Canada, that extensive use of approximations is typically made.

Taking into account the written comments from the members, the draft questionnaire has now been revised and reformatted into two parts. Part I will give background information which forms the foundation for Part II, and although Part I will involve answering questions, the signature of the actuary is appended only to Part II. Part I may or may not be submitted with the signed Part II -- we're still thinking about it.

Part I might be answered by the valuation actuary or various people who report to the valuation actuary, while Part II must be signed by the valuation actuary. The concept of this revised draft has been re-exposed to many of the valuation actuaries who had commented on the original draft. We hope this version or one close to it will be acceptable to most valuation actuaries. In particular, this approach should address the concern of

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many of the great detail to be attested to in the earlier draft, as well as the problems of multinational, multiline insurers.

We have recommended to Council that this draft be approved for further immediate exposure to all valuation actuaries, with a comment deadline in late October so that it may be finalized at the November 1989 Council Meeting, in order that it may be mandatory with respect to 1989 year-end.

I would now like to briefly expose the revised draft which has just been forwarded to Council (Slide 2). Clearly, the concept of complying with technique papers is now further enshrined in our recommendations as well as our Standards of Practice. This tends to be one of the more fertile areas for potential lack of compliance. Questions 3 and 4 continue to refer to the concept of "approximations" and "materiality." Similarly, if we look at questions 6 and 7 we will see further references to the word "material."

We may attempt to find a way to further simplify the answering process. For example, one concept being discussed is rather than saying "yes," "no" or "not applicable," we may consider for certain questions the response being one of "yes, always," "yes, usually," "sometimes" or "no." The key aspect is that one says "yes usually," but if one can satisfy the materiality and approximation aspect or the yes where applicable aspect, then that should be deemed

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compliance. We would also have more generalized instructions at the front of the document. Finally, the questionnaire would have to be revised for GAAP, and this would be done, with a further exposure period to the members.

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PART II

- 1.0 I have prepared or reviewed the answers to Part I and I am satisfied that the valuation has been prepared in accordance with:
- a) the Recommendations for Life Insurance Company Financial Reporting (the CIA Recommendations);
i. ___yes ii. ___no
 - b) Valuation Technique Paper No. 1 -- The Valuation of Lapse Supported Products;
i. ___yes ii. ___no iii. ___n/a No lapse supported products
 - c) Valuation Technique Paper No. 2 -- The Valuation of Individual Renewable Term Insurance;
i. ___yes ii. ___no iii. ___n/a No renewable term products
 - d) Valuation Technique Paper No. 3 -- Future Cash-Flow Investment Assumption;
i. ___yes ii. ___no
 - e) Valuation Technique Paper No. 4 -- Valuation of Reinsured Policies;
i. ___yes ii. ___no
 - f) Valuation Technique Paper No. 6 -- Expected Mortality for Individual Insurance;
i. ___yes ii. ___no

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If the answer is no to any of (a), (b), (c), (d), (e), or (f), the member has in each instance:

g) consulted with the Committee on Life Insurance Company Financial Reporting and not received an unfavorable ruling;

i. ___yes ii. ___no iii. ___n/a

h) maintained detailed records including justification for the nonconformity;

i. ___yes ii. ___no iii. ___n/a

2.0 The member has compiled and retained sufficient documentation to show conformity with CIA Recommendations and Technique Papers Nos. 1, 2, 3, 4, and 6, including evidence that:

Yes/No

a. ___ the data have been verified;

b. ___ all material policy contingent liabilities have been valued;

c. ___ an explicit assumption has been made for each event which includes a provision for adverse deviations;

d. ___ the methods and assumptions have been documented and justified.

MATERIALITY

3.0 The member has established standards of materiality to satisfy each normal user of the financial statements.

i. ___yes ii. ___no

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3.1 If yes, the standards for materiality are:

- i. described and justified in the Valuation Actuary Report ____
- ii. not described in the Valuation Actuary Report but maintained in the Valuation file ____
- iii. not documented ____

APPROXIMATIONS

4.0 The member has used approximations in the valuation.

- i. ____yes
- ii. ____no

4.1 If approximations have been used, the member is able to show that each approximation does not materially affect the liabilities or net income.

- i. ____yes
- ii. ____no

4.2 If approximations have been used, the Valuation Actuary Report discloses:

- i. the approximation methods and assumptions ____
- ii. the underlying (theoretically correct) methods and assumptions ____

FAMILIARITY WITH COMPANY POLICY AND PROCEDURES

5.0 The member has and maintains sufficient familiarity with administration and accounting procedures.

- i. ____yes
- ii. ____no

5.1 The member has established and documented the verification procedures to ensure that the valuation data are consistent with the terms of the contracts, the recordkeeping system and the accounting procedures.

- i. ____yes
- ii. ____no

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5.2 The member is familiar with and has considered current and projected company policy with respect to investments, underwriting, claims, marketing, pricing, policyholder dividends and administration.

- i. ___yes ii. ___no

This section is only applicable if the company publishes a Financial Statement. If not, proceed to Section 7.0.

6.0 The text of the actuarial report in published Financial Statements follows the CIA Recommendations:

Yes/No

- a. ___ without modifications;
b. ___ modified to restrict the scope of the policy benefit liabilities from that defined in the Recommendations.

6.1 The Valuation Actuary has relied on the work of another Actuary in the valuation of a foreign subsidiary for purposes of preparing a consolidated financial statement.

- i. ___yes ii. ___no iii. ___n/a

If yes, the Valuation Actuary is satisfied as to the appropriateness of such reliance.

- i. ___yes ii. ___no

7.0 The member has disclosed in the Valuation Actuary report (and the Financial Statements, if they are published) material situations described in Recommendation 5.06.

- i. ___yes ii. ___no iii. ___n/a

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7.1 For each of the material disclosure situations described in Recommendation 5.06 the member has in both the report and any published financial statement:

Yes/No

- a. ___ described the situation;
- b. ___ stated the effect on reserves, surplus and net income for each year reported in the statement;
- c. ___ indicated its projected financial effect.

8.0 The valuation includes business assumed from or shared with another company.

- i. ___yes ii. ___no

8.1 If the answer to 8.0 is yes, the member has:

Yes/No

- a. ___ requested sufficient data to establish his own policy benefit liabilities;
- b. ___ relied on the valuation done by the principal company's Actuary.

If the answer to (b) is yes, the member is satisfied as to the appropriateness of such reliance.

- i. ___yes ii. ___no

9.0 For any material block was a different valuation method used than that described in the Recommendations for Life Insurance Company Financial Reporting?

- i. ___yes ii. ___no

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9.1 If yes, did the Financial Reporting Committee approve the use of the method used?

i. ___yes

ii. ___no

Date

Name (Please Print)

Signature

