AUTORITÉ DES MARCHÉS FINANCIERS

Actuary’s Guide regarding the Financial Condition Testing report of Insurers of Persons

March 2024

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INTRODUCTION

This Guide is intended for the appointed actuaries (the “actuaries”) of Quebec chartered insurers of persons for the application of sections 128 and 129 of the *Insurers Act*, CQLR, c. A-32.1 (the “Act”).

The actuary must prepare a study (the “report on the financial position” or the “Financial Condition Testing report” or the “FCT”) on the insurer’s financial position. This guide sets out the requirements of the AMF in addition of those stated in the Canadian Institute of Actuaries (the “CIA”) most recent educational notes. These notes are: “Financial Condition Testing” (the “Educational Note) and “Guidance for the 2024 Reporting of Capital and Financial Condition Testing for Life, P&C, and Mortgage Insurers”. The actuary must acknowledge these notes before reading this Guide.

The actuary may be required to produce, if necessary, additional explanations regarding the FCT production. For that matter, he must collect and keep:

- the tests, studies and other analyses carried out;
- the documents providing a clear and complete justification for the choice of assumptions and methods used;
- the control procedures for data, assumptions and calculations;
- all relevant documents related to the FCT.

The FCT must be based on the audited results as at financial year-end and must be sent to AMF up to one year after this date.

Excel file required by the AMF :

The actuary must complete and submit the applicable Excel file. The Excel files are available under the "*Financial Condition Testing report*" section of the AMF's website at the following address :

https://lautorite.qc.ca/en/professionals/insurers/disclosures/insurance-of-persons-life-and-health

The actuary must follow the instructions provided on the first worksheet of the Excel file. In particular, the tables in the Excel file required by the AMF must not be modified by adding rows or columns. The actuary must ensure to include in these tables all the information required by the Guide.

Please note that the base scenario results in this file must be presented without the impact of the insurer’s realistic plan aimed at bringing the CARLI ratios equal to or above the target ratios, if applicable.

PRESENTATION OF REPORT

Table of contents

A table of contents must be included at the beginning of the report and respect the order presented in this Guide. If the actuary deems necessary to add sections to the report, these must be found after the prescribed appendices. Also, all sections must be identified and all pages numbered so that the sections can be referenced in the table of contents.

Contact person

The Report must provide the contact information for the contact person appointed by the actuary to answer disclosure questions relating to the Report. Such contact information must be clearly indicated on the first page of the Report and include the:

- Contact person's name;
- Company's name;
- Telephone number;
- E-mail address.

Report Order

The order of the sections presented in the "Reporting" chapter of the Educational Note must be respected, as well as the expectations of each section.

The following "Contents of report" section of this Guide is used to set the minimum and/or complementary expectations of the AMF of each section of the report.

Smart PDF

- The AMF expects the searchable PDF format to be adhered to, as indicated in the "E-Services – Disclosure Guide – Insurers" document available on the AMF website at the following address:

  https://lautorite.qc.ca/en/professionals/insurers/disclosures/insurance-of-persons-life-and-health.

- Searchable PDFs are interactive PDFs. For example, the table of contents must contain clickable links to the various sections, and the file must contain bookmarks for ease of navigation. A scanned version will not be accepted.

CONTENTS OF REPORT

Section 1 - Executive summary

The expected information complementary to the Educational Note is:

- the highlights on, notably:
  - the discrepancies deemed significant between the base scenario and the business plan;
  - the insurer's plan deemed realistic by the actuary (the "realistic plan") in the base scenario aimed at bringing the CARLI ratios equal or above the insurer's internal capital target ratios (the "target ratios"), if applicable;
  - the risks and threats that are most likely to jeopardize the satisfactory financial condition of the insurer;
  - the corrective management actions deemed satisfactory by the actuary that would lessen the likelihood of these threats, or that would mitigate these threats, if they materialize;
- the date at which the FCT was presented by the actuary to the board of directors or the audit committee.

Section 2 - FCT opinion

No additional expectation to the Educational Note.

Section 3 – Introduction

No additional expectation to the Educational Note.

Section 4 – Results

No additional expectation to the Educational Note

Section 5 - Capital management and adequacy measurement

In addition to the thresholds used to measure the financial condition required in the most recent Educational Note, the actuary must provide:

- the insurer's operational target ratios (the "operational ratios"), if applicable. The operational ratios refer to the internal target ratios that include the desired excess capital. If more than one level of excess capital is targeted, the operational target ratios refer to the minimum excess capital level;
- although the AMF expects the actuary to use only the approximations permitted in the *Capital adequacy requirements guideline – Insurance of Persons* ("CARLI") (section 1.4.5) to project the CARLI ratios, the actuary may use other approximations. In such circumstances, the actuary must disclose these additional approximations in this section of the report, and he must state that he assured himself that his opinion would not have been different without these approximations.

Section 6 - Background discussion

The AMF expects the analysis to cover the insurer's business during at least the **three most recent fiscal years**, as well as the financial position at the end of those years.

Also, the actuary must project **consolidated** financial statements if the audited financial statements at year end are consolidated.

In addition, the actuary must present a reconciliation between the projected results in the first year of last year's FCT base scenario and the actual results of the last completed year. This reconciliation must be done by identifying, where appropriate, the main sources of difference to explain significant differences (the lesser of the materiality standard or 10%) between projected and actual results.

Section 7 - Base scenario

Among other things, the following **assumptions/methods must be described**:

- the future improvement for mortality and/or morbidity;
- All information deferring from the actuary's most recent *Report on policy liabilities* including:

- the main directly attributable expenses assumptions that apply for each year of the forecast period, when they are different from those that applied in the last valuation. The actuary should justify the variation of these assumptions over the forecast period;
- the valuation methods used to calculate the insurance contract liabilities (assets) and the reinsurance contract held assets (liabilities);
- the method(s)/technique(s) used for risk adjustment for non-financial risk;
- the insurer's spot discount curves.

The FCT must **describe and explain the major elements of the base scenario**, namely:

- the level of new business (amounts of insurance and premiums) by lines of business;
- the new target markets;
- the CARLI total ratio and CARLI core ratio movements over the forecast period compared with the target and operational ratios;
- the insurer's realistic plan aimed at bringing the CARLI ratios equal to or above the target ratios, if applicable;
- the change in net earnings over the forecast period (among others, compared with historical net earnings);
- the change in the insurer's equity / surplus or in items treated as capital / surplus (dividends, capital injections (outflows), issue or redemption of capital stocks, etc.);
- the insurer's ability to support the expected business growth;
- etc.

The actuary must establish the connection between the base scenario chosen and the insurer's business plan, and any material differences must be disclosed and justified. In addition, the actuary must consider recent events, including the current economic context, and recent financial operating results of the insurer up to the date of the report. He must provide them in his report.

For each projected year, the actuary must provide the asset yield assumption, for at least the following categories: Bonds and Debentures, Common shares, Preferred shares, Investment properties, Financial instrument derivative, Mortgage loans and Others. The yield must be net of default and include dividends.

The AMF expects the forecast period to be **at least five years**, and the report to provide the **following results over the forecast**

period (in addition to Educational Note requirements):

- the CARLI total and core ratios, available capital and required capital (used to calculate the base solvency buffer) presented by main components;
- the premiums of in-force business and new business **for each line of business defined in the applicable Life returns**[1].

The actuary must present these results in the report **with and without the impact of the insurer's realistic plan** aimed at bringing the CARLI ratios above or equal to the target ratios, if applicable.

The required FCT Excel file includes an analysis of net changes in the present value of fulfilment cash flows related to experience gains and losses by type of assumption and net changes in estimates attributable to assumption changes. This analysis must be presented in this section of the report and accompanied with explanations on the main variations. In the net change related to experience analysis, the actuary must explain the projection of losses of experience for an assumption. In such a situation, where no change is made to the assumption, the actuary must justify it. In addition, for assumptions that have experienced losses in recent years, the actuary must comment when no experience loss is projected for these assumptions.

Section 8 - Adverse scenarios

The actuary must include comments on **at least** each risk category defined in the appendix A of the most recent CIA's Educational Note. For each category that has not been analysed, the actuary must justify.

Also, this section must include a detailed analysis of at least the three most adverse scenarios (the two solvency scenarios with the greatest impact on the insurer's equity and the going concern scenario with the greatest impact on the insurer's CARLI ratios) in addition to the information required by the Educational Note, the additional information listed in section 7 – Base scenario, a detailed description of the changes made to the base scenario assumptions and methods used to model the scenario, including the timing of the net contract liabilities reevaluation, as well as the description of the methodology that was used to define the assumptions of the scenario and the probability of realization of the scenario (e.g.: the percentile rank of the distribution of results) must be presented for each of the most adverse scenarios

[1] The « Life returns » are available at the following link under the Forms and instructions section of the "Financial returns": https://lautorite.qc.ca/en/professionals/insurers/disclosures/insurance-of-persons-life-and-health/.

Section 9 - Conclusions and recommendations

No additional expectation to the Educational Note.

APPENDICES

Appendix A – Supporting documents used to present the FCT report

Include the presentation made to the board of directors.