

Notice of interpretation regarding the treatment of future mortality improvement under the Capital Adequacy Requirements Guideline applicable to life and health insurers

1. Scope

This Notice is intended for insurers licensed to transact life and health insurance (insurance of persons) in Québec.

2. Background

As per section A1 of the Capital Adequacy Requirements Guideline the “Guideline”), insurers are required to submit to the *Autorité des marchés financiers* (the “Authority” or the “AMF”) beforehand any situation for which treatment is not covered in the Guideline or for which the recommended treatment seems inadequate. In accordance with this requirement, an interpretation of the treatment of future mortality improvement different from the recommendation under the Guideline was recently submitted to the AMF. This Notice sets out this interpretation and the AMF position in this regard.

3. Treatment under the Guideline

The treatment of future mortality improvement is set out in section B2 of the Guideline and may be summarized as follows:

- the net decrease in actuarial liabilities for insurance and annuity business combined resulting from the recognition of future mortality improvement must be subtracted from Tier 1 capital;
- when this item is subtracted from capital, actuarial liabilities used in calculating the capital ratio should exclude these mortality improvements.

4. Interpretation submitted

The amount related to future mortality improvement that is subtracted from Tier 1 capital may be offset by the net increase in actuarial liabilities resulting from the use of a Canadian risk-free interest rate that is under the lower bound of the prescribed range in paragraphs 2330.15.1 to 2330.15.3 of the Standards of Practice of the Canadian Actuarial Standards Board.

When the amount subtracted is fully offset, capital requirements should be calculated taking into account future mortality improvement.

When the amount subtracted is partially offset, capital requirements may be calculated as follows:

- a. for calculations based on the amount of actuarial liabilities: by using an actuarial liability amount equal to the greater of:
 - i. the amount determined by excluding mortality improvement and using a Canadian risk-free interest rate equal to the lower bound of the range prescribed in paragraphs 2330.15.1 to 2330.15.3 of the actuarial standards of practice; and
 - ii. the amount reported in the financial statements at the date of calculation;
- b. to simplify calculations based on mortality rates: by using the rates including future mortality improvement.

5. AMF Position

The AMF will consider this interpretation to be acceptable where it meets the following criteria:

- a. Offset may only be determined through a net increase in actuarial liabilities resulting from the use of a Canadian risk-free interest rate that is under the lower bound of the range prescribed in paragraphs 2330.15.1 to 2330.15.3 of the actuarial standards of practice. The net increase in actuarial liabilities resulting from another assumption may not be recognized in the offset calculation.
- b. Offset may not be determined through a net increase in actuarial liabilities related to segregated fund guarantees.
- c. Following the offset, the amount subtracted from Tier 1 capital must not be negative.
- d. Insurers must ensure that the offset calculation meets these criteria whenever the capital ratio is calculated.

6. Use of interpretation submitted

If an insurer seeks to use the interpretation submitted, it must send a request in writing to the AMF beforehand demonstrating that the interpretation is adequate for its situation and will be used in accordance with the criteria set forth in this Notice. The request must be sent to the *Direction de la surveillance des assureurs* (AMF Supervision of Insurers) at the following address:

Autorité des marchés financiers
Direction de la surveillance des assureurs
Place de la Cité, tour Cominar
2640, boul. Laurier, bureau 400
Québec (Québec) G1V 5C1

7. Subsequent steps

The Guideline will include the interpretation set out in this Notice when it is updated in 2012. As usual, the proposed amendment to the Guideline will be posted on the AMF website for consultation.

Additional information

Additional information is available from:

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