

## 2600 Ratemaking: Property and Casualty Insurance

### 2610 Scope

- .01 Part 1000 applies to work within the scope of this section 2600.
- .02 This section 2600 applies to the derivation of indicated rates for an insurance contract of property and casualty insurance written by an insurer, a reciprocal insurance exchange, or an underwriting syndicate.
- .03 This section 2600 does not apply to the derivation of indicated rates for public personal injury compensation plans covered by the Practice-Specific Standards for Public Personal Injury Compensation Plans.
- .04 This section 2600 applies to the derivation of indicated rates for any entity, such as a residual market mechanism or an advisory organization, which derives indicated rates for an insurance contract to be written by an insurer, regardless of whether or not that entity is itself an insurer.
- .05 This section 2600 applies to the derivation of indicated rates, but not to the recommendation or selection of rates to be charged. The recommended or selected rates may reflect considerations beyond those set forth in this section 2600.
- .06 This section 2600 also applies to the derivation of indicated rates for insurance risks accepted by a property and casualty quasi-insurer, similar to insurance risks accepted under an insurance contract. In this section 2600, “property and casualty quasi-insurer” means an entity that assumes insurance risks that a property and casualty insurer may assume, without having the legal form of an insurer. Examples of property and casualty quasi-insurers include
- Federal or provincial crown corporations or agencies acting in a capacity similar to a property and casualty insurer;
  - Providers of extended warranties; and
  - Self-funding mechanisms, such as those created by members of a professional association, or entities that retain some or all of their property and casualty insurance risk.

## 2620 Method

- .01 The best estimate present value of cash flows relating to the revenue at the indicated rate should equal the best estimate present value of cash flows relating to the corresponding claim costs and expense costs, plus the present value of a provision for profit, over a specified period of time. [Effective April 15, 2017]
  
- .02 The actuary should select appropriate methods, techniques, and assumptions recognizing that such elements depend on the circumstances affecting the work and that a variety of actuarial methods may be appropriate to derive an indicated rate. [Effective February 1, 2018]

### Data

- .03 The actuary would consider the availability and relevance of subject experience and related experience.

### Credibility

- .04 The actuary would consider the blending of information from subject experience with information from one or more sets of related experience to improve the predictive value of estimates.

### Changes in circumstances

- .05 The actuary would consider that the subject experience, related experience, and future cash flows may be affected by changes in circumstances that may affect expected claim costs, expense costs, and provision for profit.

.06 Relevant circumstances subject to change may include items that are largely under the control of the entity providing insurance, such as

- Underwriting practice;
- Distribution system;
- Claims handling and case estimate setting practice;
- Reinsurance arrangements;
- Data processing and accounting systems;
- Distribution or type of business written;
- Provisions of the insurance contract(s), when not legislated;
- Premium rates; and
- Rating variables;

as well as items that are largely not under the control of the entity providing insurance, such as

- Legislated coverage or benefits; and
- The economic, social, and legal environments.

#### **Development**

.07 The actuary would consider that subject experience and related experience may be subject to development over time.

#### **Trend**

.08 The actuary would consider that subject experience and related experience may be subject to trend over time.

#### **Unusual events**

.09 The actuary would consider that subject experience and related experience may or may not have been subject to catastrophes, large losses, or other unusual events.

#### **Provision for expense costs**

.10 The actuary would determine the provision for expense costs that is appropriate for the period during which the rates are expected to be in effect.

- .11 In selecting a provision for expense costs, the actuary would consider
- The various categories of expense costs that are incurred including, as may be applicable, residual market assessments, statutory assessments, policyholder dividends, and reinsurance costs;
  - That expense costs may not be directly proportional to premium; and
  - That one-time expense costs may need to be amortized.
- .12 The provision for expense costs, or other assumptions that are pertinent to its derivation, may be specified to the actuary under the terms of an appropriate engagement.

**Provision for profit**

- .13 An indicated rate would include a provision for profit.
- .14 The provision for profit, or other assumptions that are pertinent to its derivation, may be specified to the actuary under the terms of an appropriate engagement.

**Time value of money**

- .15 The investment return rate for calculating the present value of cash flows would reflect the expected investment income to be earned on assets that might be acquired with the net cash flows resulting from the revenue at the indicated rate.
- .16 Among various possible sets of such assets the actuary would consider
- Risk-free assets of appropriate duration;
  - Fixed-income assets of appropriate duration; and
  - Assets which are expected to be acquired.
- .17 The actuary would consider the fact that the provision for profit is not independent of the selected investment return rate and its associated uncertainty.

## 2630 Reporting

- .01 If an external user report is required and the actuary can report without reservation, the actuary's report should include the standard reporting language consisting of the following scope paragraph,

I have derived the indicated rate(s) in accordance with accepted actuarial practice in Canada, on behalf of [entity commissioning the work], for the following insurance category(ies): [name of insurance category(ies)], to be effective Month XX, 20XX for new business and Month XX, 20XX for renewal business. [Effective February 1, 2018]

- .02 If an external user report is required and the actuary cannot report without reservation, the actuary should modify the standard reporting language accordingly. [Effective February 1, 2018]

- .03 An additional opinion paragraph may be included to conform to the requirements of an external user.