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Notes on Past Exam Questions and Answers and the Material

Questions and parts of some solutions have been taken from material copyrighted by the Casualty Actuarial Society. They are reproduced in this study manual with the permission of the CAS solely to aid students studying for the actuarial exams. Some editing of questions has been done. Students may also request past exams directly from the society. I am very grateful to the CAS for its cooperation and permission to use this material. It is, of course, in no way responsible for the structure or accuracy of the manual.

Exam questions are identified by numbers in parentheses at the end of each question. CAS questions have four numbers separated by hyphens: the year of the exam, the number of the exam, the number of the question, and the points assigned. SoA or joint exam questions usually lack the number for points assigned. W indicates a written answer question; for questions of this type, the number of points assigned are also given. A indicates a question from the afternoon part of an exam. MC indicates that a multiple choice question has been converted into a true/false question. Some questions from past exams are based on more than one reading. They are only included once in the manual. Review questions are supplied for some of the newer readings.

Page numbers (p.) with solutions refer to the reading to which the question has been assigned unless otherwise noted. Note that parts of some exam questions may make use of material that is no longer included in the syllabus. Although I have made a conscientious effort to eliminate mistakes and incorrect answers, I am certain some remain. I encourage students who find errors to bring them to my attention. Please check our web site for corrections subsequent to publication.



I would like to thank Peter J. Murdza and Dean A. Westpfahl for their contributions to this manual, which include many summary outlines and past examination answers.

To the students who make use of this manual, feedback is welcome. Good luck on October 27, 2015! VAG

**Marvin G. Baer and James A. Rendall, Chapter 2: "Structure of the Industry,"
in *Cases on the Canadian Law of Insurance* (Sixth Edition), pp. 67–91, 93–100.**

OUTLINE

I. THE INSURANCE INDUSTRY IN CANADA

A. Types of Insurance Carriers

1. Individual underwriters
 - a. Rare in North America
 - b. Lloyd's of London
 - 1) Similar to a stock exchange except open only to members, not the public
 - 2) Types of members
 - a) **Underwriting members** – members who accept risk on their own account, acting through private syndicates and underwriting agents
 - b) **Nonunderwriting members** – members who "enjoy all but insuring privileges"
 - i) **Subscribers** – nonunderwriting members who "act as brokers on behalf of the public and place risks with Underwriting Members"
 - ii) **Associates** – nonunderwriting members who perform services for members, e.g., lawyers, actuaries
2. **Joint stock companies** – for-profit organizations made up of stockholders but managed by its board of directors and officers
3. **Mutual insurance carriers** – corporate insurers whose voting control rests with policyholders rather than stockholders
4. **Reciprocal or interinsurance exchanges** – organizations "of individuals who have joined together for the exchange of insurance"
 - a. Does not issue policies
 - b. Members are individually liable
5. Differences in structure not seen as that important as mainly involve corporate law

B. The Nature of Competition in the Insurance Industry

1. Exemption of insurance from anticompetitive legislation attributable to danger of uncontrolled price competition producing bankruptcies
2. Industry encouraged to charge adequate premiums through the authorization and regulation of rating bureaus
 - a. Principal bureau is the Insurers Advisory Organization (IAO)
 - b. Superintendents also appoint statistical agency, usually the Statistical Division of the Insurance Bureau of Canada (IBC)
3. Rating bureaus also authorized to promulgate policies; since standardized, no competition in this area

4. Superintendent powers
 - a. ON – limited power over rates and unfair and deceptive acts and practices
 - b. All provinces – must approve auto policies, which in some provinces are the subject of legislation
5. Insurance market
 - a. Concentration no greater than other economic areas
 - b. Canadian companies comprise 40% of the market
 - c. Most foreign companies are American

C. Insurance Industry Organizations

1. Insurance Bureau of Canada (IBC)
 - a. Member companies write more than 90% of the P&C private insurance
 - b. Objectives
 - 1) Discuss general insurance
 - 2) Collect and analyze statistical information
 - 3) Study legislation
 - 4) Engage in research
 - 5) Promote better public understanding
2. Two other major industry organizations
 - a. Canadian Life and Health Insurance Association (CLHIA)
 - b. Board of Marine Underwriters
3. Various other insurance organizations
 - a. Life and health organizations, e.g., the Life Underwriters Association of Canada
 - b. Property and casualty organizations, e.g., Association of Independent Insurers
 - c. IBC and CLHIA act as umbrella organizations

II. THE NATURE OF INSURANCE REGULATION

A. History

1. Focus of insurance regulation
 - a. Guarantee financial solvency
 - b. Promote Canadian ownership and Canadian investments
 - c. Promote revenue collection
 - d. Promote market integrity and improve the insurance contract
 - e. Promote the honesty and competence of insurance intermediaries
2. Solvency
 - a. Nineteenth-century legislation seeks to prevent insurer insolvency following the company failures in the U.S. and U.K.
 - b. Methods
 - 1) Control the creation of domestic insurers
 - 2) Licensing of foreign insurers
 - 3) Periodic filing of information
 - 4) Governmental power of enforcement
 - 5) Creation of rating bureaus and in some provinces administrative boards

- c. Reasons for regulation of insurance
 - 1) Loss of public confidence following bankruptcies
 - 2) Short-term price competition seen as not in the public interest
 - 3) Fiduciary nature of insurance as money collected in advance
- d. Protection against insolvency remains a major function today
- 3. Canadianization
 - a. 1868–77 – foreign companies required to maintain sufficient assets in Canada
 - b. Such protects policyholders but also prevents expatriation of capital
 - c. Results in the withdrawal of half of the foreign companies and the expansion of Canadian companies
- 4. Government revenue – 1869–70 comprised about 15% of government revenue; share has declined over time
- 5. Regulating the contract
 - a. 1876 – ON regulates fire policies
 - b. Courts disallow federal attempts at policy regulation, leaving it to the provinces
 - c. Extent of regulation varies with the type of insurance
 - 1) Fire – statutory policy conditions
 - 2) Auto – superintendent must approve forms
 - 3) Other P&C – less regulated
 - 4) Life – laws prohibit certain practices and grant certain rights
 - 5) Other personal lines (e.g., A&S) – legislation combines fire and life features
 - 6) Group life and credit life – regulated by the industry
- 6. Control over insurance intermediaries
 - a. Traditionally, intermediaries have had some independence from insurers
 - b. Examples
 - 1) Agent
 - 2) Broker – term applicable to an agent representing more than one company
 - 3) Adjuster
 - c. Many companies use employees rather than intermediaries
 - d. Principles for regulating life agents in more than one province
 - 1) Single-company representation
 - a) Abandonment of this in most common law provinces
 - b) In such cases, agent's actions governed by a contract with the company, rather than the legislation
 - c) But one-company representation still permitted
 - 2) Company sponsorship for a license
 - a) Basic training concentrated within a company
 - b) But no statutory authorization or the statutory creation of a board of self-regulation
 - c) Some provinces specify prerequisites and some require passage of a standard exam but waivers possible
 - 3) Superintendents participate in the continuing education of agents
 - 4) Life Underwriters of Canada establishes standards of conduct; violation brings penalties

- e. Regulation of other-than-life agents
 - 1) Self-regulation by statutorily established associations
 - 2) Licensing by the superintendent but training by the company
 - 3) Six provinces adopt an exam but waivers possible
- f. Licensing of adjusters varies by province, though most require sponsoring/recommendation by a licensed adjuster
- 7. Direct control over marketing practices
 - a. In general, insurance exempt from general regulation governing the marketing of goods and services
 - b. Several provincial insurance acts prohibit specified unfair acts or practices
- 8. Form of insurance regulation
 - a. Three levels of regulation
 - 1) Legislation
 - 2) Regulations of the Lieutenant Governor in Council
 - 3) Regulations by the superintendent
 - a) Reflect consultations with the industry but public involvement varies
 - b) At times the basis of authority is uncertain
 - b. Recently guidelines preferred over more formal regulation
 - 1) May appear to be a solution while permitting inconsistent activities
 - 2) Seen as more flexible
 - 3) Less open to judicial interpretation as public given no rights
 - 4) Adoption does not require approval of other parts of the government

B. The Constitutional Power to Regulate Insurance – Provincial Jurisdiction over Insurance Law

- 1. No mention in the Constitution Act of 1867 but need seen shortly afterwards with U.S. and U.K. bankruptcies
- 2. Other motives behind federal regulation: promotion of investment and revenue gain
- 3. Provincial focus (e.g., ON) on marketing practices and contractual terms
- 4. Privy Council upholds ON legislation regulating fire policies but finds trade and commerce clause insufficient basis for federal regulatory schemes (1916–32)
- 5. 1932 legislation gives the federal government powers related to the solvency (but not contract provisions) of federally registered companies
- 6. Sees conflicts between federal and provincial regulation as not reflecting a sharp division between laissez-faire and interventionist approaches as at times each level had advocated each of the approaches
- 7. No political tension between the two levels in the last 40 years

C. The Role of the Canadian Council of Insurance Regulators

- 1. Promotes uniformity in provincial regulation
- 2. Comparable functions to the Uniform Law Conference of Canada in areas other than insurance law
- 3. But not limited to the drafting of legislation; also encourages uniform practices
- 4. Much greater public input than in the case of the Privy Council

III. TYPES OF INSURANCE

A. Overview

1. Roles of classification in insurance law
 - a. Provides organizing principles
 - b. Identifies similarities or differences
 - c. Suggests solutions for problems
 - d. Balance generalization and particularization
2. Insurance law seen subject to more inconsistencies than other legal areas (e.g., contracts) for the following reasons:
 - a. Principles of marine law not applicable for newer types
 - b. Limited legislative reform produces a complex patchwork
3. Legal divisions differ from industry's marketing divisions

B. Social and Private Insurance

1. Differences
 - a. Social insurance generally has a universal application but not risk selection
 - b. Social insurance does not have a need to protect the public from gaming
 - c. Social insurance does not require extensive solvency protection
 - d. Different supervision of intermediaries in social insurance as are civil servants
2. Similarities
 - a. Rules to protect the insurance fund and prevent double recovery
 - b. Problems regarding covered events and whether loss is covered by insured event
 - c. Problems involving efficient claims settlements and loss valuation

C. Marine and Nonmarine Insurance

1. Many basic notions are common, e.g., insurable interest, subrogation, etc.
2. Unique marine rules, e.g., general average, abandonment

D. Indemnity and Nonindemnity Insurance: *Glynn v. Scottish Union & National Insurance Co. Ltd.*

1. Question as to whether an insurer has subrogation rights to a third-party payment of medical expenses when it pays the same expenses under an insurance contract
2. Focus on whether the insuring agreement was a personal accident policy, which various authorities see as not a contract of indemnity
3. Court finds that contracts of indemnity are determined by the exact nature of the contract and not by its categorization
4. Sources of categories
 - a. Hazard insured against, e.g., fire insurance
 - b. Antithesis of the hazard insured against, e.g., credit insurance
 - c. Name of the item, e.g., aircraft insurance
 - d. Generic name, e.g., marine insurance

5. Confusion from use of the term "insured" to refer to an item, whereas in reality, is the person owning or being responsible for something
 6. Distinctive nature of life insurance contracts
 - a. Annuity payments not seen to resemble an indemnity contract
 - b. Not able to translate a loss of life into a pecuniary loss
 - c. Policy upon a contingency, not a policy of indemnity
 - d. Not based on the idea of compensation
 7. Principle of indemnity
 - a. Relief of the financial impact of a contingent event by shifting risk to the insurer in exchange for premium
 - b. Thus principle of indemnity is governing principle
 - c. For this not to apply, specific wording must exist in the contract
 - d. Insured must prove the following to recover
 - 1) Happening of an event that results in the insurer's liability
 - 2) Loss to the insured from the event
 - e. Payment equals the lower of the contract maximum and the amount of the loss
 8. Valued policy
 - a. Insurer and insured agree to a specific value
 - b. Insured relieved of having to prove the amount of the loss but must still prove the fact of the loss
 - c. Remains a contract of indemnity
 - d. Contrasts with a policy that pays a fixed sum on the happening of an event
 - 1) Payment regardless of whether the insured suffers a loss, e.g., accidental death policy
 - 2) Reflects the difficulty of proving pecuniary loss
 - e. Personal accident policy can be either one of indemnity (if proof of loss required) or a valued policy (if no proof required)
 9. Conclusion that even though the section of the policy dealt with personal accident coverage, since it involved the payment of actual expenses incurred, it constituted a policy of indemnity to which the principle of subrogation applies
- E. Classification in the Insurance Act for the Purpose of Regulating the Contract Between Insured and Insurer
1. Overview
 - a. Separate treatment
 - 1) Fire
 - 2) Life
 - 3) Automobile
 - 4) A&S
 - 5) Livestock
 - 6) Weather
 - b. Differences in legislative treatment reflects piecemeal legislative reform
 - c. Complicating factors
 - 1) Very few common law rules superseded
 - 2) Industry product divisions not consistent with legislative ones

- d. Though classifying powers given to the superintendent or lieutenant-governor-in-council, they have not used them
2. *Regal Films Corporation Ltd. v. Glens Falls Insurance Company*
 - a. Insurer resists payment of loss because proof of loss not furnished within 60 days
 - b. Court dismisses the insurer's arguments and orders payment
 - 1) Though titled an inland marine policy, the policy's primary risk was against fire and lightning
 - 2) Statutory provision of requiring proof as soon as practicable rather than a 60-day period applies
 - 3) Plaintiff found to meet the statutory provision
 - 4) In addition, company and insured agreed to a scheme of adjustment, which could not be satisfied within 60 days
 - c. Two questions dealt with in case law
 - 1) What fire losses does the fire section of the Insurance Act cover?
 - a) According to the statutory definition, fire insurance does not include insurance incidental to other classes
 - b) 1959 ON revision of the fire section specifically lists cases where section does not apply; other cases are thus covered
 - 2) Is the fire section applicable to losses from other perils?
 - a) Broad approach proposed instead of narrow classifications found in the Insurance Act but not implemented in the 1955 revision of the Uniform Fire Part
 - b) Various cases produce different interpretations
 - i) Fire section does not apply at all to other perils
 - ii) Fire section applies if fire is the primary risk
 - c) One way of achieving an integrated approach (i.e., having the fire section apply to all perils) is to specify such in the policy provisions but this may not be possible since in some aspects may violate statutory provisions benefiting the insured

F. Group and Individual Insurance

1. Group insurance does not identify the individuals covered
2. Master contract is between the insurer and the sponsor
3. Insureds have only the rights given to them by the sponsor
4. Types of sponsors
 - a. Employers
 - b. Professional associations
 - c. Trade unions
5. Differ from subscription policies where more than one insurer is needed to cover a large commercial risk

G. Classes of Insurance for the Purpose of Licensing Insurers

1. A&S
2. Aircraft
3. Automobile

4. Boiler and machinery
5. Credit
6. Fidelity – insurance of losses from unfaithful performance or involving the guarantee of proper fulfillment of an office's duties
7. Hail
8. Legal expense
9. Liability, excluding aircraft and automobile
10. Life
11. Marine
12. Mortgage
13. Property, including fire, inland transportation, livestock, plate glass, property damage, sprinkler leakage, theft, and weather
14. Surety – guarantee of a contract and payment of penalty for default, excluding credit and mortgage
15. Title

PAST CAS EXAMINATION QUESTIONS

1. According to Baer and Rendall, in *Cases on the Canadian Law of Insurance*, Canadian insurance regulation since Confederation has focused on five main areas. Identify four of these five areas. (00-7C-63-2)

2. According to Baer and Rendall, in *Cases on the Canadian Law of Insurance*, members of a reciprocal insurance exchange are held jointly liable for award payments. (01-7C-9-.5)

3. According to Baer and Rendall, in *Cases on the Canadian Law of Insurance*, in recent years the federal government has not attempted to regulate the form and content of insurance contracts. (01-7C-10-.5)

4. Baer and Rendall, in *Cases on the Canadian Law of Insurance*, compare elements of private and social insurance.
 - a. Identify three differences between private and social insurance.
 - b. Identify three similarities between private and social insurance. (01-7C-52-.75/.75)

5. According to Baer and Rendall, in *Cases on the Canadian Law of Insurance*, Canadian insurance regulations were designed to guarantee the financial solvency of insurers.
 - a. Briefly describe the three conditions that led to the insurance industry being singled out for such unusual public control.
 - b. Briefly describe three examples of legislation that were passed and designed to guarantee the financial solvency of insurers. (02-7C-44-.75/.75)

6. In the latter part of the nineteenth century, Canadian insurance regulations focused on the financial solvency of insurers.
 - a. Briefly describe three reasons why the insurance industry was singled out for such unusual public oversight during this time.
 - b. Briefly describe three types of legislation that were introduced to guarantee the financial solvency of insurers during this time. (03-7C-25-.75/.75)

7. Which of the following are roles of the Canadian Council of Insurance Regulators?
 1. Encourage uniform practices across the provinces.
 2. Engage in activities to promote a better public understanding of insurance.
 3. Draft legislation.

A. 1 B. 2 C. 1, 3 D. 2, 3 E. 1, 2, 3 (04-7C-5-1)

1.
 - 1) Regulations designed to guarantee the financial solvency of insurers
 - 2) Attempts to promote Canadian ownership of insurers and investment by insurers in Canada
 - 3) Creation of tax revenues
 - 4) Regulations designed to promote marketing integrity and improve the insurance contract
 - 5) Regulations designed to promote the honesty and competence of insurance intermediaries, p. 73.
2. F, p. 68 – Substitute "individually" for "jointly."
3. T, p. 75.
4. Differences include the following:
 - 1) Private insurance involves risk selection, whereas social insurance usually accepts all risks.
 - 2) Private insurance is concerned with protecting the public against gaming, whereas social insurance is not.
 - 3) Solvency is a major issue for private insurance, whereas it is not for social insurance, which is underwritten by the state.
 - 4) Different administration or judicial supervision applies since private employees administer private insurance, whereas civil servants administer social insurance.

Similarities include the following:

- 1) Both involve concepts and rules that seek to protect the insurance fund and to prevent overcompensation.
 - 2) Both involve problems of defining covered events and determining covered losses.
 - 3) Both need to establish a fair and efficient claims process and to adopt a system for loss valuation, pp. 83–84.
5.
 - a.
 - 1) "[T]here was the historical fact that in the 1860s and 1870s public confidence had become badly shaken by the bankruptcy of several insurance companies."
 - 2) "[L]egislators perceived that aggressive short-term price competition was not in the public interest since this discouraged insurers from providing sufficiently for future losses."
 - 3) "[M]ost life insurance was 'permanent,' that is involved a significant savings component as well as pure insurance, and even property and casualty insurance involved the management of large pools of prepaid premiums," p. 74.
 - b.
 - 1) Legislation "controlling the creation of domestic insurers and licensing foreign insurers"
 - 2) Legislation "limiting the types of investments insurers could make"
 - 3) Legislation "providing for the periodic filing of financial information"
 - 4) Legislation "giving a government department authority to ensure compliance"
 - 5) Legislation involving "the creation or recognition of rating bureaus"
 - 6) Legislation involving the creation of administrative boards to encourage minimum or adequate rates," p. 73.
 6.
 - a. See 5a.
 - b. See 5b.
 7.
 1. T, p. 81
 2. F, pp. 81–82 – This is not mentioned.
 3. T, p. 82

Answer: C

8. According to Baer and Rendall, in *Cases on the Canadian Law of Insurance*:
- a. Identify the three levels of insurance regulation.
 - b. Identify the level of regulation favoured by both superintendents of insurance and the insurance industry in recent years.
 - c. Why was the level of regulation identified in b. the favoured choice? (04-7C-28-.75/.25/.5)
- 9.
- a. Is a weather derivative, where the insurer agrees to pay the insured a fixed sum if the temperature is above 0° C over some specified time frame, a contract of indemnity or not? Explain your answer.
 - b. Is this weather derivative a valued insurance policy? Explain your answer. (04-7C-30-.5ea.)
10. Which of the following insurance doctrines are considered to be unique to marine insurance?
1. Contribution 2. Abandonment 3. Constructive total loss
- A. 1 B. 2 C. 1,3 D. 2,3 E. 1,2,3 (05-7C-7-1)
11. The Speedy Insurance Company of Canada issued a policy protecting the Slow Corporation's property in Ontario against loss by fire and hail. The policy effective period runs from January 1, 2005 to December 31, 2005. In the event of a covered loss, the policy stipulates that the insured must furnish proof of loss within sixty days of the event causing the loss. On March 16, 2005, a fire loss causes significant damages to the Slow Corporation's property in Ontario. On May 31, 2005, the Slow Corporation had all the documents to submit the proof of loss. On June 15, 2005, the Slow Corporation furnished the proof of loss to the Speedy Insurance Company of Canada and filed its fire claim. On July 1, 2005, the Speedy Insurance Company of Canada denied the claim on the grounds that the Slow Corporation had not furnished the proof of loss within the sixty days stipulated in the policy. As a result, the Slow Corporation filed a suit against Speedy to collect the insurance proceeds.
- a. Discuss why the court is likely to rule in favor of the Slow Corporation.
 - b. What argument might Speedy make in its defence?
 - c. With regard to the application of the provisions found in the Insurance Act, discuss the Canadian court's position for insurance policies that cover multiple risks.
 - d. Given the provisions of the Insurance Act as discussed in c., what policy changes should Speedy make to its property policy? (06-7C-12-1/.25/.5/.25)
- 12.
- a. What are the Insurance Bureau of Canada's (IBC's) five main objectives?
 - b. Comment on the objectives of the IBC in relation to antitrust laws. (06-7C-13-1.25/.75)
13. Explain why the insurance industry in Canada has been given special status that allows insurers to cooperate in the determination of adequate premiums. (07-7C-8a-1)
- 14.
- a. Compare and contrast indemnity insurance and the principle of indemnity.
 - b. For each of the following scenarios, briefly explain whether the principle of indemnity is respected.
 - i) An endorsement that allows for a specific payment in the case of a total loss on an antique vehicle.
 - ii) A contract with an insurer to pay the insured a fixed sum of money in the event of a snowstorm during a one-day outdoor carnival.
 - iii) An endorsement with a fixed daily dollar limit that provides a temporary replacement vehicle in case of a loss on a private passenger vehicle.
 - iv) A provision in an insurance policy to rebuild a house after a total loss, regardless of the actual cost. (07-7C-11-1/2)

8. a. 1) Legislation
2) Regulations made by the lieutenant governor in council
3) Guidelines or directives issued by the superintendents, p. 78.
b. Guidelines, p. 78.
c. "[T]hey are seen as more flexible, less obtrusive and less likely to be 'misinterpreted' by the courts. . . . They also "can be adopted without being vetted by other government departments, or scrutinized by cabinet or its committees," pp. 78–79.
9. a. No. The amount of the insured's recovery is not measured by the extent of his loss, p. 86.
b. No. The insured does not have to prove it has suffered any loss, p. 89.
10. 1. F, p. 84 – This is common to both marine and nonmarine insurance.
2. T, p. 84
3. T, p. 84
Answer: D
11. a. Statutory condition 15 of the Insurance Act takes precedence over the contract provision. That condition sets no time limit on the submission of proof of loss but only requires that it "be delivered as soon as practicable after the loss," p. 94.
b. It might contend that since the documents were collected by May 31 but not submitted until June 15, they were not submitted as soon as practicable.
c. The provisions of such policies involving nonincidental fire risks are governed by Part IV of the Insurance Act, pp. 94–95.
d. It should change its proof-of-loss requirement to conform to statutory condition 15.
12. a. 1) Discuss general insurance
2) Collect and analyze statistical information
3) Study legislation
4) Engage in research
5) Promote better public understanding, p. 71.
b. Such objectives involve "concerted practices which in other industries might be considered anti-competitive practices inimical to a healthy market economy." Government sanctioning of the collection of statistics and promulgation of rates by rating bureaus and industry organizations may have encouraged them to engage in such concerted practices, p. 71.
13. "The explanation for this special status lies in the view that uncontrolled price competition in the short term is not in the public's long term interest. Too vigorous price competition in the short term results in insurers collecting less in premiums than is necessary to meet their future liabilities. The resulting bankruptcy of an insurer could have a catastrophic effect on its customers. Since insurance companies are like banks in that they administer large sums of what is, in effect, their customers' money, special rules are necessary to guarantee their continued solvency," p. 69.
14. a. Contracts of indemnity are contracts where the "amount recoverable is measured by the extent of the assured's pecuniary loss." The principle of indemnity is the principle "that the assured, in case of a loss against which the policy has been made, shall be fully indemnified, but shall never be more than fully indemnified," pp. 86, 88.
b. i) It is respected. Although the insured does not have to prove the amount of a loss, he still must prove that a financial loss has occurred.
ii) It is not respected as the insured does not have to prove that a financial loss has occurred.
iii) It is respected as the limit is the maximum amount payable, not the actual payment amount in all cases.
iv) It is not respected as rebuilt house may be worth more than the house before the total loss, pp. 89–90.

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15. Identify four primary areas on which Canadian insurance regulation has focused since Confederation. (07-7C-12-2)
16. a. Identify the four main corporate structures for property-casualty insurance
b. Identify and briefly explain which of the four main corporate structures in a. is most suitable as an investment for an individual with no insurance expertise and a large amount of capital to invest. (08-7C-8-1/.5)
17. Answer the following questions with regard to the landmark case *Regal Films Corporation (1941) Ltd. v. Glens Falls Insurance Company*.
- a. Describe the facts of the case.
b. Briefly describe the issues in the case.
c. Briefly describe the ruling in the case. (08-7C-13-1.5/.5/.5)
18. a. Describe two differences and two similarities between social and private insurance.
b. Describe one difference between valued policies and nonindemnity insurance. (09-7C-15-2/.5)
19. According to Baer and Rendall, “Cases on the Canadian Law of Insurance”:
- a. Identify three levels of insurance regulation.
b. Identify the level of regulation favoured by both the insurance industry and superintendents of insurance in recent years.
c. Briefly describe three reasons why the level of regulation identified in b. is the favoured choice. (10-7C-12-.75/.25/.75)
20. a. Describe two similarities between social insurance and private insurance.
b. Describe two differences between social insurance and private insurance. (10-7C-13-1ea.)
21. a. Briefly describe four ways that Canadian regulation promotes solvency.
b. Describe two reasons the insurance industry was singled out for public oversight of solvency.
c. Compare and contrast the oversight responsibilities of the Canadian federal and provincial insurance regulators. (14-6C-1-3:1/1/1)

15. See 1.
16. a. 1) Individual underwriters
2) Joint stock companies
3) Mutual insurance carriers
4) Reciprocal or interinsurance exchanges
b. Individual underwriters and members of a reciprocal should have insurance expertise. Mutual companies do not have investors or stockholders. Investment in a joint stock company is thus the most suitable option, pp. 67–68.
17. a. "Following a fire a claim was made under the policy which was resisted on the ground that the plaintiff had not furnished proof of loss within the sixty days stipulated in the policy," p. 94.
b. 1) Whether the policy of insurance comes under Part IV of the Insurance Act, which governs "insurance (not being insurance incidental to some other class of insurance, defined by or under this Act) against loss of or damage to property through fire, lightning or explosion due to ignition"
2) Whether the "condition of the policy in respect of the proofs of loss relied upon by the defendant is inconsistent with and varies or modifies statutory condition no. 15. Statutory condition no. 15 does not put any express time-limit on the insured within which he must submit proofs of loss," pp. 94–95.
c. 1) That the policy did come under Part IV of the Insurance Act
2) That the policy conditions were contrary to statutory condition no. 15, pp. 94–95.
18. a. See 4.
b. Valued policies involve payment of an agreed value if an insured proves the occurrence of a loss and are contracts of indemnity. Nonindemnity insurance, on the other hand, "provides, that upon the happening of some contingent event, a sum fixed or calculable becomes payable to the insured, regardless of whether the insured suffers any pecuniary loss, p. 89.
19. a. See 8a.
b. See 8b.
c. See 8c.
20. See 4.
21. a. (1) Restrict the licensing and creation of foreign and domestic insurers; (2) Mandate periodic filings of financial information by insurers; (3) Create a government office for compliance; (4) Restrict the type of investments insurers can make
b. Insurer bankruptcies led to concerns that policyholders' obligations would not be paid, and Short term price competition was not in public's long-term interest, because rates that are too low do not guarantee that obligations are paid for
c. Federal regulators are mainly responsible for solvency issues of insurers. They do this by making sure insurers meet conditions for engaging in insurance business, thereby protecting policyholder interest. Provincial regulators are generally responsible for market conduct, approving premium rates, reviewing sales practices and claims settlement practices and licensing of agents/brokers

22. Describe the advantages and disadvantages of foreign participation in the Canadian insurance industry.
(14S-6C-10-1)

22. Advantages

- More competition resulting in more availability of insurance
- More competition allows premiums to be competitive, making them more affordable to customers
- Multinational companies have more international opportunity to diversify their portfolio. Well diversified company is less likely to be insolvent
- Creates tax revenue for Canada

Disadvantages

- Runs counter to goal of federal government to promote Canadian ownership
- Harder to verify financial resources of parent so greater potential for insolvency
- Domestic funds and profit are being transferred to foreign countries

**"Guideline—Minimum Capital Test (MCT) for Federally Regulated Property
and Casualty Insurance Companies," January 2015**

OUTLINE

- I. Chapter 1. Overview and General Requirements
- A. The Minimum Capital Test (MCT) Guideline applies to Canadian property and casualty insurance companies and foreign property and casualty companies operating in Canada on a branch basis
1. Chapter 3 defines assets available for foreign property and casualty companies operating in Canada on a branch basis (foreign companies).
 2. Guideline uses generic expressions meant to apply to both Canadian P&C insurers and foreign companies; e.g., capital available also refers to assets available for Branch Adequacy of Assets Test (BAAT) purposes, capital required refers to margin required for BAAT purposes and capital adequacy refers to margin adequacy for BAAT purposes.
 3. Further guidance concerning some of the requirements of the MCT Guideline may be found on OSFI's website
 4. 1.1.1. Minimum and target capital requirements under the MCT
 - a) Under MCT, regulatory capital requirements set directly at a predetermined target confidence level.
 - b) OSFI has elected 99% of the expected shortfall (conditional tail expectation or CTE 99%) over a one-year time horizon as a target confidence level.
 - c) Risk factors used to compute capital requirements at the target level.
 - d) Resulting MCT capital requirements divided by 1.5 to derive minimum capital requirements.
 - e) MCT ratio: capital available over the minimum capital required.
 5. 1.1.2. Risk-based capital adequacy
 - a) P&C insurers must meet MCT capital requirements at all times.
 - b) P&C insurers' minimum capital requirements are calculated on a consolidated basis and determined as the sum of the capital requirements at the target level for each risk component, less the diversification credit, divided by 1.5.
 - c) Minimum capital requirements calculated as follows: ***Sum of:***
 - (1) Capital required for insurance risk (reference chapter 4): Capital required for unpaid claims and premium liabilities; Catastrophe reserves; Margin required for reinsurance ceded to unregistered reinsurers.
 - (2) Capital required for market risk (reference chapter 5): interest rate risk; foreign exchange risk; equity risk; real estate risk; for other market risk exposures.
 - (3) Capital required for credit risk (reference chapter 6): counterparty default risk for balance sheet assets; counterparty default risk for off-balance sheet exposures; collateral held for unregistered reinsurance and self-insured retention (reference section 4.3.3).
 - (4) Capital required for operational risk (reference chapter 7).
 - (5) **Less:**
 - (6) Diversification credit (reference chapter 8).
 - (7) **Divided by 1.5.**

6. 1.1.3. Scope of consolidation
 - a) Capital adequacy requirements apply on consolidated basis, including P&C insurer and all directly or indirectly held subsidiaries, which carry on business directly in accordance with the *Insurance Companies Act* (ICA)
 - b) Excludes:
 - (1) life insurance subsidiaries
 - (2) other regulated financial institutions carrying on business that the parent would not be permitted to carry on directly under the (ICA).
 - c) Consolidation determined by nature of business, not location.
 7. 1.1.4. Foreign companies
 - a) Margin requirement set forth under the BAAT in chapter 3.
 - b) The BAAT is only one element in the determination of the required assets that must be maintained in Canada by foreign companies; must vest assets in accordance with the Adequacy of Assets in Canada test, as prescribed in the *Assets (Foreign Companies) Regulations*.
 8. 1.1.5. Interpretation of results: standardized measure, but only one; should not be used in isolation for ranking insurers.
- B. 1.2. General Requirements
1. 1.2.1. MCT supervisory capital ratio for federally regulated P&C insurers
 - a) MCT ratio: calculated by dividing the P&C insurer's capital available by minimum capital required
 - b) Federally regulated P&C insurers are required, at a minimum, to maintain an MCT ratio of 100%.
 - c) OSFI established (supervisory target) of 150% that provides:
 - (1) a cushion above the minimum requirement
 - (2) facilitates OSFI's early intervention process
 - (3) OSFI expects each P&C insurer to establish an internal target capital ratio (internal target)
 - (4) P&C insurers must inform OSFI if they anticipate falling below their internal target and lay out their plans, for OSFI's supervisory approval, to return to their internal target.
 - d) P&C insurers expected to maintain their MCT ratios at or above their established internal targets on a continuous basis
 2. 1.2.2. Audit requirement
 - a) Auditor must report annually on the MCT or BAAT
 - b) Annual audit report of MCT or BAAT must be prepared separately from the audit report for the financial statements, and filed no later than 90 days after the P&C insurers' fiscal year-end.
 3. 1.2.3. Transitional arrangements (not needed for exam)

II. Chapter 2. Definition of Capital Available

A. 2.1. Summary of Capital Components

1. Four primary considerations in measuring capital adequacy are:
 - a) availability: is capital fully paid in and available to absorb losses
 - b) permanence: when capital element is available
 - c) absence of encumbrances and mandatory servicing costs
 - d) subordination: is capital element subordinated to the rights of policyholders and creditors in an insolvency or winding-up.
2. 2.1.1. Category A capital (i.e. common equity)
 - a) Includes:
 - (1) Common shares issued by the P&C insurer meeting category A qualifying criteria described below
 - (2) Share premium resulting from issuance of instruments included in common equity capital and other contributed surplus
 - (3) Retained earnings
 - (4) Earthquake, nuclear and general contingency reserves
 - (5) Accumulated other comprehensive income.
 - b) 2.1.1.1. Qualifying criteria for inclusion of capital instruments in category A for regulatory capital purposes; must meet ALL criteria
 - (1) Most subordinated claim in liquidation of the insurer.
 - (2) Investor entitled to claim on residual assets proportional with share of issued capital (claim not fixed or capped)
 - (3) Principal perpetual and never repaid outside of liquidation (Superintendent may permit exceptions)
 - (4) No expectation at issuance that the instrument will be bought back, redeemed or cancelled
 - (5) Distributions are paid out of distributable items, not linked to amount paid in at issuance and is not subject to a contractual cap (unless insurer can't pay)
 - (6) Distributions not obligatory so non-payment not an event of default.
 - (7) Distributions are paid only after all legal and contractual obligations have been met and payments on more senior capital instruments have been made
 - (8) Issued capital takes the first and proportionately greatest share of any losses as they occur, *pari passu* with all the others of highest quality capital
 - (9) Paid-in amount is recognized as equity capital (i.e. not recognized as a liability) for determining balance sheet solvency.
 - (10) Insurer cannot directly or indirectly have funded the purchase of the instrument. Where the consideration for the shares is not cash, the issuance of the common shares needs prior approval of Superintendent.
 - (11) Neither secured nor covered by guarantee of issuer or related entity
 - (12) Only issued with the approval of the owners
 - (13) Clearly and separately disclosed on the insurer's balance sheet

3. 2.1.2. Category B capital
 - a) Instruments issued that meet category B criteria and do not meet the criteria for classification as category A, subject to applicable limits;
 - b) Contributed surplus (share premium) resulting from the issuance of instruments meeting category B criteria.
 - c) 2.1.2.1. Criteria for inclusion of capital instruments in category B for regulatory capital purposes. Must meet ALL the following
 - (1) Issued and paid-in in cash or, subject to Superintendent's prior approval
 - (2) Subordinated to policyholders, general creditors and subordinated debt holders
 - (3) Neither secured nor covered by guarantee of the issuer or related entity
 - (4) Is perpetual: no maturity date nor incentives to redeem
 - (5) May be callable at the initiative of the issuer only after a minimum of five years:
 - (a) Only with Superintendent's prior approval
 - (b) Must not create expectation that call will be exercised; and
 - (c) Must replace called instrument with capital of same or better quality or
 - (d) Demonstrate that capital position well above supervisory target capital requirements after call option
 - (6) Any repayment of principal requires approval of Superintendent
 - (7) Dividend/coupon discretion:
 - (a) insurer has full discretion at all times to cancel
 - (b) cancellation of discretionary payments not an event of default or credit event
 - (c) insurer has full access to cancelled payments
 - (d) cancellation of distributions/payments imposes no restrictions except in relation to common shareholders.
 - (8) Dividends/coupons must be paid out of distributable items.
 - (9) No credit sensitive dividend feature
 - (10) Cannot contribute to liabilities exceeding assets if such a balance sheet test forms part of national insolvency law.
 - (11) Unless prior approval of Superintendent, classified as equity
 - (12) Insurer/related party cannot directly or indirectly have funded the purchase of the instrument
 - (13) No features that hinder recapitalization
 - (14) If not issued directly by insurer (e.g. issued out of a special purpose vehicle or SPV), proceeds must be available immediately in a form that meets or exceeds all of the other criteria of category B
 - d) Purchase for cancellation of Category B capital instruments permitted at any time with prior approval of the Superintendent
 - e) Tax and regulatory event calls permitted during an instrument's life subject to prior approval of Superintendent and provided the insurer was not in a position to anticipate such an event at the time of issuance
 - f) Dividend stopper arrangements that stop payments on common shares or Category B instruments are permissible provided does not impede full discretion insurer has to cancel distributions or dividends on the Category B instrument, nor can it hinder recapitalization of institution in criterion number 13 above. For example, not permitted for a stopper to:

- (1) attempt to stop payment on another instrument where payments were not also fully discretionary
 - (2) prevent distributions to shareholders for a period beyond point in time that dividends or distributions on Category B instrument resumed
 - (3) impede normal operation of institution or any restructuring activity, including acquisitions or disposals.
- g) A dividend stopper may also prohibit actions equivalent to payment of a dividend, such discretionary share buybacks.
- h) Amendments or variances only permitted with prior approval of Superintendent if to be recognized as regulatory capital.
- i) Insurers may “re-open” offerings of capital instruments to increase the principal, with the prior approval of the Superintendent, on or after the fifth anniversary of the closing date of the latest re-opened tranche of securities.
- j) Defeasance options may only be exercised on or after the fifth anniversary of closing date with the prior approval of the Superintendent.
4. 2.1.3. Category C capital
- a) Instruments issued that meet category C criteria, but not A or B criteria, subject to an applicable limit
 - b) Contributed surplus (share premium) from category C instruments
 - c) 2.1.3.1. Qualifying criteria for Category C for regulatory capital purposes (must meet ALL)
 - (1) Issued and paid-in in cash or, with prior approval of Superintendent, in property.
 - (2) Subordinated to policyholders and general creditors
 - (3) Neither secured nor covered by guarantee of the issuer or related entity
 - (4) Maturity:
 - (a) minimum original maturity of at least five years
 - (b) recognition in regulatory capital in remaining five years before maturity amortized on a straight line basis;
 - (c) no step-ups or other incentives to redeem
 - (5) May be callable at by issuer only after a minimum of five years:
 - (a) Only with Superintendent’s prior approval
 - (b) Must not create expectation that call will be exercised; and
 - (c) Must replace called instrument with capital of same or better quality or
 - (d) Demonstrate that capital position well above supervisory target capital requirements after call option
 - (6) No right to accelerate future scheduled payments (interest or principal), except in bankruptcy, insolvency, wind-up, or liquidation.
 - (7) No credit sensitive dividend feature
 - (8) Insurer/related party cannot directly or indirectly have funded the purchase of the instrument
 - (9) If not issued directly by insurer (e.g. issued out of a special purpose vehicle or SPV), proceeds must be available immediately in a form that meets or exceeds all of the other criteria of category C
 - d) No restrictive covenants or default clauses letting holder accelerate repayment except in insolvency, bankruptcy or winding-up of the issuer.
 - e) Purchase for cancellation of category C instruments permitted at any time with the prior approval of the Superintendent

- f) Tax and regulatory event calls permitted with prior approval of Superintendent and provided insurer could not anticipate such an event at time of issuance.
 - g) Amendment or variance will only be permitted with the prior approval of the Superintendent if would impact its recognition as regulatory capital
 - h) May “re-open” offerings to increase the principal amount of original issuance provided that call options will only be exercised, with prior approval of Superintendent, on or after fifth anniversary of the closing date of the latest re-opened tranche of securities.
 - i) Defeasance options may only be exercised on or after the fifth anniversary of the closing date with the prior approval of the Superintendent.
 - j) 2.1.3.2. Amortization for Category C capital instruments subject to straight-line amortization in the final five years prior to maturity based on the following schedule:
 - (1) 5 + years to maturity: 100%
 - (2) 4 to < 5 years: 80%
 - (3) 3 to < 4 years: 60%
 - (4) 2 to < 3 years: 40%
 - (5) 1 to < 2 years: 20%
 - (6) Less than 1 year: 0%
 - (7) For instruments issued prior to January 1, 2015, amortization should begin five years prior to effective dates governing such options.
 - (8) Amortization should be computed at end of each fiscal quarter based on "years to maturity" schedule above.
5. 2.1.4. Non-controlling interests: may include, in capital available, non-controlling interests in operating consolidated subsidiaries, if:
- a) Instruments meet qualifying criteria under category A, B and C;
 - b) Capital in subsidiary not excessive in relation to amount necessary to carry on subsidiary’s business;
 - c) Level of capitalization of subsidiary comparable to insurance company as a whole.
 - d) If a subsidiary issues capital instruments for the funding of the P&C insurer, the terms and conditions of the issue and the intercompany transfer, must ensure that investors are placed in the same position as if the instrument were issued by the P&C insurer directly in order for it to qualify