

NEWS FROM IBC

Various IBC's contributors

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NEWS FROM IBC / NOUVELLES DU BAC

by various IBC's contributors /
par différents collaborateurs du BAC

A. *Financial Affairs*, A quarterly report from IBC's Financial Affairs Committee, March 1999.

■ **Committee matters, by Stuart Kistruck**

Financial Affairs Committee is responsible for financial, tax and regulatory issues. Its principal mandates are actually the following:

Review of OSFI's spending plans

The federal Superintendent, John Palmer, will meet again this year with the members of the Financial Affairs Committee to discuss OSFI's spending plans for 1999/2000. As in previous years, this will provide an opportunity to discuss assesment rates, OSFI user-fees, and other changes.

We anticipate a discussion concerning the current restructuring underway at OSFI. Significant reforms are taking place.

The meeting is scheduled for April 20.

Financial Affairs Symposium

The third annual IBC financial Affairs conference will be held on Wednesday, March 24, at the Toronto Sheraton Centre.

Fred Gorbet is the keynote speaker. Fred was the Executive Director of the Task Force on the Future of the Financial Service Sector, and he will share his views on legislative reform options.

Like the last two years, the session will address emerging issues for P&C insurers in taxations, reporting and regulations.

Pre-budget consultations

IBC is participating in discussions with federal and provincial authorities concerning public spending and revenue priorities. This annual process is a critical element of our ongoing discussion on taxation and regulatory reform.

■ **Tax Panel, by Eileen Young**

Eileen Young has volunteered to chair the Tax Panel for 1999. Here are some of the main mandates.

Surety contracts

A new legislative provision has been introduced by the Department of Finance to deal with performance bonds. The new section ensures that the recipient of construction services must pay GST on any contract payment still owing after the surety carries on the construction. The changes apply to transactions occurring after October 8, 1998.

Ontario capital tax

Throughout the fall, IBC has worked with the CLHIA to discuss solutions to recent changes in the Ontario Capital Tax that inadvertently imposed additional tax on insurance companies in a holding company framework. The legislative changes required to amend the Ontario Capital Tax were proclaimed into law in December 1998. A change in regulation is also required. The Tax Panel will continue to monitor this issue.

Mark-to-market

The working group continues its work to prepare a mark-to-market submission to the Department of Finance in early 1999. The submission will advance several new arguments including the results of a short survey to members of the tax panel to gauge the volatility of tax instalments. Research shows that there is no other country that marks financial institutions' securities to market for tax purposes when this is not also the treatment for book purposes. The group is investigating further details.

Head office account

Revenue Canada's work to interpret the tax status of the Head Office Account is ongoing. Member companies with audit experience regarding Revenue's position on the Head Office Account are encouraged to contact IBC.

Transfer pricing

The Tax Panel will examine transfer pricing. Early work suggests that the major vulnerability cited in this presentation was with reinsurance arrangements with a foreign parent. The members of the Panel agreed to approach individuals within their companies about this issue.

Multi-national regulations

The Tax Panel has begun work on determining the implications for the P&C industry of the Department of Finance's draft multi-national regulations for life companies.

■ **Financial Issues, by Doug Hogan**

Doug Hogan has agreed to assume responsibility as chair, following Norm McIntyre's completion of term as chair of the subcommittee.

IASC insurance accounting project

The International Accounting Standards Committee (IASC) is expected to produce an exposure draft proposing new comprehensive standards for financial reporting (accounting and disclosure) for insurance in mid-1999. This report is expected to propose significant changes to financial reporting for insurance companies. Doug Hogan is participating on a CICA Task Force to develop a Canadian response to the IASC project. There is little consensus at this early stage on many important issues among the members of the task force, including how and when to recognize revenue and catastrophic exposure.

The subcommittee will actively monitor the issues raised by this project and the subcommittee will devote a portion of its next meeting discussing the implications of the IASC project for Canadian P&C reporting. If the subcommittee achieves its own consensus on key issues, it will recommend an IBC response to the exposure draft.

Discounting

OSFI's work on the discounting of actuarial provisions has halted until the broader issues raised by the IASC Insurance Accounting project report can be considered. However, The Canadian Institute of Actuaries continues to actively work to meet the conditions raised by OSFI's 1997 discussion paper. The subcommittee will continue to monitor this issue.

Quebec derivative guideline

Quebec's Inspector General of Financial Institutions has approached IBC about a new draft Derivative Guideline for P&C insurers. The Quebec regulator is aware of OSFI's existing derivative guideline, but wishes to tailor a specific guideline for P&C insurers. They have noted the increased likelihood of P&C insurers using derivatives to manage their earthquake exposure. The members of the subcommittee will assist IBC's Montreal office in providing input to the Quebec regulator's guideline in 1999.

Annual disclosure guideline

OSFI is currently redrafting its Annual Disclosure Guideline. The subcommittee members continue to feel that the majority of the disclosure required by the guideline mirrors the disclosure requirements of the CICA and the CIA. However, this is a high priority for OSFI and who intend that the new guideline will be effective for fiscal 1999.

B. Perspective, A quarterly analysis of the financial performance of Canada's P&C insurance industry, Vol 5, Number 1, March 1999.

■ **A year to remember, by Paul Kovacs**

The January ice storm was the defining event for the Canadian insurance industry during 1998. More than 700,000 claims were paid, worth a total of \$1.44 billion, three times greater than any previous event – a remarkable challenge and triumph for the country and the insurance industry. Certainly a year to remember.

The ice-storm, cyclical weakness and lower investment income contributed to a decline in industry earnings of 42 percent last year. Preliminary year end results published by Statistics Canada show that the industry's combined ratio increased from 103.1 in 1997, to 107.6 last year.

Adjusted for the one-time costs associated with the ice-storm, the results show a slight deterioration last year in several key measures of industry performance. This reflects cyclical weakness. The cost of auto insurance in Ontario, for example, has declined by more than 10 percent over the past two years. Several other insurance markets across the country are also soft. Even a major event like the ice storm did not affect these soft markets.

The industry's investment income, excluding realized gains, did not grow last year. Canadian equity markets lost more than 30 percent of their value, on average, between April and October, reflecting international economic problems. Reliance primarily on interest income, and strength in equity markets in the early and final parts of the year ensured stable investment income for the industry.

Insurers ended the year with solid industry fundamentals, strong capitalization, and, adjusted for the ice storm, most underwriting performance measures remain near the strongest level in twenty years. The industry continues to maintain sound fundamentals. A return to firmer markets, however, may take another 12 to 18 months.

A. *Affaires Financières*, Rapport trimestriel du Comité des affaires financières, mars 1999.

■ Le Comité en bref, par Stuart Kistruck

Le Comité des affaires financières se penche sur des questions financières, fiscales et législatives. Il s'intéresse actuellement aux trois mandats suivants :

Examen des plans et dépenses du BSIF

Le surintendant fédéral, John Palmer, rencontrera encore une fois cette année les membres du Comité des affaires financières pour discuter des plans de dépenses du BSIF pour 1999-2000. Comme par les années antérieures, cette rencontre permettra de discuter des taux de cotisation et des frais d'utilisation imposés par le BSIF, et d'autres modifications.

Nous prévoyons un échange sur la restructuration en cours au BSIF. Le Bureau procède actuellement à d'importantes réformes. La rencontre est prévue pour le 20 avril.

Colloque sur les affaires financières

Le troisième colloque annuel du BAC sur les affaires financières se tiendra le mercredi 24 mars, au Centre Sheraton de Toronto.

Fred Gorbet sera le conférencier invité. Fred Gorbet était directeur exécutif du Groupe de travail sur l'avenir du secteur des services financiers canadien. Il commentera les options relatives à la réforme de la législation.