

The pace of change: Coping in today's new reality*

Insurance Review: A Canadian perspective



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Claims transformation

A critical strategy to staying ahead

Insurers are faced with numerous trends that are driving change within the industry. These trends are changing the way that insurers must interact with customers and service providers in order to stay ahead of the competition and maintain their bottom line. Nowhere is change having a bigger impact than in the claims area. Several forces are increasing the pressure on claims.

1. Increased complexity

Marketing strategies are increasingly relying on claims as a source of differentiation. Products are becoming more complex resulting in more complex claims. Managing claim complexity in a streamlined, straight-through process is key to maintaining an insurer's bottom line.

2. Baby boomers are retiring

Managing complex claims – particularly when Bodily Injury or Disability is

involved requires experienced claims staff. There's a looming shortage of experienced claims staff, particularly in smaller labour markets where many insurers are located.

3. Evolving claims platforms

Technology innovations are allowing claims departments to rethink their strategies and processes to stay competitive. Insurers are looking to technology as a way to help them manage more complex claims in a streamlined way.

4. Procurement

Managing service provider costs and implementing vendor management initiatives can drive significant savings especially in areas that are both integral to the claims process and have high volume. Examples could include Chiropractic or Glass Repair.

Organizations must recognize these trends and adapt and transform to meet customer expectations or risk falling behind the competition. Insurers should also consider the importance of claims transformation to their bottom line as well. According to a recent PwC report *Claims strategy - Large scale change in claims*, effective claims transformation can reduce loss and expense ratios by up to 12% and improve customer satisfaction.

Guiding principles for claims transformation

Successful transformation is hard to achieve. Establishing guiding principles offers a “touchstone” to help keep a claims transformation initiative on the right path. If we view the following diagram as a generic claims process or value chain, then here are some guiding principles that have worked well:

Claims management value chain



- Satisfy the customer at every touch point during the claims process.
- Operate the claims value chain using supply chain management techniques.
- Integrate business processes enterprise wide to affect a more consistent claims handling process.
- Employ a structured approach to outsourcing with a view to reducing claims handling costs.
- Boost profitability by identifying and eliminating sources of claims leakage.
- Harness claims data with a responsive knowledge management system.
- Employ innovative human resources practices to recruit, train, and retain claims staff.
- Improve the quality and consistency of case reserving.
- Employ a risk-based approach to complex claims handling.
- Align claims with the organization's overarching vision of creating shareholder value.



In addition to these guiding principles, a successful claims transformation also considers the following aspects:

“What” before “how”

Examine the capabilities required to deliver the functional claims strategy first. Use validated leading claims practices before looking at the organization, vendors, process or technology. This should minimize rework and establish clear direction for the transformation.

Business value focus

Establish a tested, quantitative basis for evaluating recommendations across loss, claim-related process costs and customer satisfaction.

Appropriate targets

Create metrics, targets and benchmarks that are customized against each claim function’s strategy using deep claims functional and line of business specific knowledge.

Accurate costs

Develop detailed, proven cost estimation models for business transformation and systems implementation costs.

Cross functional impacts

Build a mix of claims, finance, change management, systems implementation and strategy resources to focus not only inside claims but also on the underwriting, reinsurance, finance and actuarial areas as well.

Claims transformation and system replacement

Claims transformations are often associated with a “Claims System Replacement”. Although not always true, claims transformations often do include the replacement of an existing claims system. Anyone who has replaced a claims system can tell you that this type of initiative is not for the faint of heart. Any

number of factors from dirty data (such as multiple instances of the same record), to custom adjudication notes captured in text fields to undocumented business rules embedded within spaghetti code can complicate migrating to a new claims system. Following a structured approach can improve the chances of success for a claims transformation. Critical success factors to consider when structuring a claims transformation approach are listed in the table on the following page.

Looking forward

With the economic events of the past year, insurers are looking to bolster their bottom lines any way they can. The forces impacting on the claims area are becoming more intense and forward-looking insurance companies are responding. By engaging in claims transformation, these insurers are strengthening their market position for some time to come. There are 10 or 15 mid-to-large scale claims transformation initiatives underway in Canada. What is your company doing to stay ahead?

For more information, please contact:

Allan Buitendag
Senior Vice-President,
Advisory Services
416 815 5239
allan.c.buitendag@ca.pwc.com

Jeff Anderson
Manager, Advisory Services
416 947 8946
jeff.anderson@ca.pwc.com

Critical Success Factor	Mitigation Strategy
Identification of a solution that provides required functionality to support the insurer, but also allows for flexibility to handle regional variations.	Sufficient time and effort must be allocated to the requirements and evaluation phases.
Architecture that supports both the desired end state and the migration.	Continually refine the architecture to increasing levels of detail and ensure strong governance throughout.
Development of a strong business case, including an approach to measurement and accountability for benefits realization.	Core systems replacement must be driven by more than cost reduction. The business benefits, including improved sales support, customer information, process flexibility, and overall management help to justify the migration risk.
Identification of an appropriate implementation approach that balances sequencing of migration.	Sufficient time and effort must be allocated to migration planning. Careful consideration of current business processes and anticipated integration challenges will allow for the identification of a “best suited” migration approach.
Creation and implementation of a sufficiently staffed and qualified Project Management Office to oversee the implementation.	Project Management Offices support different facets of project-based work to effect lower costs, to reduce risks and to achieve successful outcomes by establishing and facilitating project management standards and creating/employing project best practices, standard templates and tools. A well-managed and appropriately structured Project Management Office will be a significant factor in ensuring the success of the initiative.
A focus on data management and process standardization to lower risk and improve control, while driving significant business benefits.	This requires careful consideration of how and why business processes differ today, and how efficiencies can be gained, and must include consideration of risk and compliance, data quality and management, technology and organization. The re-engineering of business processes to increasing levels of detail carries on in subsequent phases in order to ensure that the detailed design is complete and has been approved at the point of preparing to implement the new core banking system.
Clear accountability between the insurer, the core systems vendor, the system integrator, and the insurer’s infrastructure vendor.	Minimize the number of separate contracts as well as ensuring clear responsibility and accountability for all aspects of the project.
Management and project sponsors (including senior management and lines of business leadership) ongoing, active involvement.	Ensure that management and project sponsors provide the appropriate time and focus and decision making throughout the initiative.

Long and whining road – Harmonized Sales Tax points insurers need to consider

We have another seven months of political posturing to endure before July 1, 2010, when the Harmonized Sales Tax (HST) arrives in Ontario, British Columbia (B.C.), and possibly one or more of the other remaining PST provinces (Manitoba, Saskatchewan and P.E.I.).

For all insurers, HST has many touch points requiring systems, documentation, costing and pricing changes. Both the Life and Property and Casualty (P&C) sectors have conducted high level impact studies, and there have been a variety of information sessions on the differing HST effects for Life and P&C insurance.¹ With only seven months remaining to the start date, this brief article illuminates some of the less obvious practical issues now facing internal HST implementation teams. It highlights areas where upgrading internal knowledge of HST will improve decision making, lower delivered cost to clients, and reduce claims costs. While some concerns are shared by all insurers, there are a number of features peculiar to either the Life or P&C sectors

A problem shared...

We now have the transitional rules for Ontario and B.C., enabling procurement departments of insurers to consider whether to accelerate or delay capital acquisitions to incur non-recoverable PST or HST. This analysis will be very specific to the particular asset, because while PST is generally not recoverable, some, none, or all of the HST *may* be recoverable as a function of which insurance product of the insurer it supports. For example, acquisition of a new computer system

or software that supports the service of administering employers' self-insured group health plans would be a cost on which the insurer can recover *all* of the GST/HST, because HST will be charged on the fee paid by the employer. Consequently, in this case delayed acquisition lowers net cost. This decision requires marrying knowledge of planned acquisitions with an understanding of how the insurers GST/HST recovery method works, and which specific area of the business the asset will support. Without connected thinking here, the tax outcome is a lottery.

Existing outsourcing contracts will have to be subjected to the same 'HST smart' analysis to raise costing knowledge from "How much more tax will we pay?" to the smarter "How much more *net* tax will we pay?", which is the *real* information needed to evaluate whether the outsourcing should be reconfigured or unwound. Some outsourcing arrangements may no longer be viable at 13% HST, where the service procured supports a product line that is entirely exempt from GST/HST, meaning that the entire increase in tax from 5% to 13% is a cost to the insurer. Any prospective outsourcing arrangements under consideration will need to have the cost/benefit analysis urgently extended

to include a range of sales tax regimes, including the very real possibility of HST in all provinces but Alberta, at 15% or 16% (a very feasible outcome within three years). The extreme of the range should include a fully harmonized Quebec which takes the HST cost to a higher level than that of the current QST 'zero-rating with compensatory taxes' model. If you thought the HST impact for insurers was dismal, spare a thought for outsourcers focused on the financial sector.

Again for all insurers, a detailed picture of the exempt (such as medical) and taxable (such as legal) composition of claims costs is needed to update reserves, so the actuaries are not left out of the HST fun.

Life: at the sharp end

Much of the published financial sector commentary on HST has focused on the cost side of the house, but product design and pricing is a fruitful area to be revisited by the group life and benefits sector under the HST. The key here is the distinction between pure administration of an employer's self-insured plan (which is a taxable service subject to GST/HST) and contracts where the employer does purchase risk coverage (which is a supply entirely exempt from GST/HST).

So, if the purchase of risk coverage under the contract is effectively a GST/HST on/off switch, wouldn't all employers automatically select the "HST off" switch by purchasing a contract with some risk coverage? No. Why? The vast majority of employers are completely indifferent

¹ To listen to a recent PwC Insurance EyeOpener audiocast on *Sales Tax Harmonization and its Impact on Insurers*, please visit www.pwc.com/ca/insurance.

to the HST charged because they can recover all GST/HST borne on their costs related to the making of supplies of HST taxable goods and services. As a function of the same HST recovery rule, the cost to the insurer of making an HST taxable supply is lower than that of making an exempt supply. An HST-informed dialogue between insurer and employer/customer will identify whether a contract subject to HST enables delivery of the service at a lower cost to the employer and at a higher margin for the insurer. Knowing enough to design the right contract for each customer can lower both customer/delivered and insurer/delivery cost. The exception is those employers who cannot recover HST, for whom an exempt contract is a real 13% saving, at the cost to the insurer of some non-recoverable HST. This is one aspect of the group business that did receive attention at the inception of the GST, but the knowledge has likely decayed over time. Upgrading or reinstalling this connection between knowledge of the tax treatment of the product, and the tax impact on the client, into the client-facing personnel of a group life insurer is a must.

HST for loss adjusters

When the GST was introduced both in-house and independent loss adjusters in the P&C sector learned that there were three types of claimants from a GST perspective. The first can not recover any of the GST on claims costs (repair, replacement, legal etc.) because they incurred the cost as a consumer, and so the GST became cost to the insurer of



settling the claim. The second type of claimant is registered for GST and can recover all the GST on the constituent claims cost because the costs related to the carrying on of an activity involving the supply of goods and or services subject to GST. The third type is a trickier claim to deal with, and involves claimants registered for GST, but able to claim only some of the GST on constituent claims costs as a function of a mystery known as GST recovery methods. Some education of loss adjusters on GST recovery methods can quickly demystify the subject, enabling the adjuster to engage the claimant in a discussion on how much of the GST is recoverable from the CRA, and how much forms part of the claims cost. A fourth rogue variant that might exist is the claimant that is paid the GST by the insurer under the indemnity contract, and then also recovers the taxes from the CRA, either through blissful ignorance, or a fortuitous economy with the facts when dealing with their friendly loss adjuster.

At 7% when the GST was introduced, loss adjusters were keen to upgrade their knowledge of this significant aspect of claims cost, where the right knowledge and questions could lower claims cost. Here again, knowledge levels have likely decayed over time. Consequently, given the rate of 13% in Ontario, a review of internal procedures on establishing GST registration status of claimants (refreshed at claim time, even if established at policy

issuance) and an education session for adjusters on the GST/HST characteristics of claimants is a modest investment that will yield real reductions in claim cost.

Little time, missing pieces

The significant rules yet to be released for the HST are the revised place-of-supply rules that will effectively remove incentives for entities such as insurers that can not recover all the HST they pay from either sourcing or relocating outside of the HST provinces. These rules are of real interest and needed soon to enable implementation teams to finalize any system changes having a long lead time. One new feature that has been predicted is a rule that will oblige any segregated fund of an insurer situated outside of the HST zone to self-assess HST to the extent it holds funds supporting policies for policy holders within the HST zone

The place-of-supply rules may be released quite late, and piecemeal, so the best approach is to map all systems impacted, and then rough-in changes on a predictive basis as far as possible, slotting the detailed final rules into place once we have them. One's planning should accommodate the possibility of more provinces joining at different rates, and also of Quebec adopting a fully harmonized model. Foresight, agility and springtime insomnia will all be attractive traits in HST implementation team members.

Please visit www.pwc.com/ca/insurance to view our recent Insurance Club EyeOpener audiocast and numerous resources on Sales Tax Harmonization and its impact on insurers.

For more information, please contact:

[Michael Firth](#)
National Leader, Indirect Tax Services
416 869-8718
michael.p.firth@ca.pwc.com



The pace of change: Coping in today's economic, regulatory and reporting environment

The last several years have been a period of intense change and challenge for Canadian and global insurers. In addition to dealing with the consequences of the worst financial crisis in decades, insurers have had to cope with fundamental changes in the accounting for and taxation of investments, increased regulatory focus, uncertainty over the future of capital management and executing business strategies in a softening market.

In addition, there is no immediate likelihood that this pace of change will lessen. 2011 will see the introduction of International Financial Reporting Standards (IFRS) for Canadian insurers, which will result in significant changes in the preparation of their financial statements and regulatory filings. Canadian reporting continues to change as we move towards IFRS – recent changes that apply to 2009 are highlighted in the next section of our newsletter.

As of January 1, 2010, foreign insurers, and cedants to such entities, also will be required to implement the amended Part XIII requirements of the Insurance Companies Act. Harmonized Sales Taxes will become effective in Ontario and British Columbia in 2010, and other provinces may soon follow. Regulators are taking a keen interest in insurers' investment holdings and strategies, as well as requiring semi-annual reporting on their progress in respect of IFRS transition and quarterly reporting on Part XIII implementation. To add to this, soft market conditions show no immediate signs of hardening. The list goes on...

Companies that tackle these issues head-on and find innovative solutions first will likely emerge as winners in the industry. However, implementing change is not easy. It requires a well thought-out

plan that addresses people, processes and culture. The following principles provide a framework insurers can use to begin the change management process:

1. Establish a clear vision for change at the outset. Maintain credibility by establishing the right tone at the top and setting up an appropriate governance structure and clear decision-making powers.

Regardless of an organization's size, it is vital to obtain buy-in from key stakeholders at the onset of a change management initiative. In addition, it is crucial to ensure up-front that the right management structure is in place. The CEO, CFO, senior executives and the Board all need to deliver consistent messages to the people who execute the projects, as well as to the organization as a whole.

2. Understand the implications of change to the entire business

Change does not occur in isolation, but affects the entire business. In order to avoid nasty surprises in unexpected places later on, it is vital to recognize that the implications of any initiative may be pervasive throughout the organization.

For example, IFRS is not just an issue for accountants, and the implementation of these new standards will have implications beyond just the finance department. New systems developments may be necessary to cope with increased information demands. Phase II of the Insurance Contracts project, which could fundamentally change the measurement of insurers' actuarial liabilities, will significantly effect actuaries, as well as management/stakeholder perception of the profitability of business written. Existing contracts may need to be revised to ensure insurance accounting can still be applied under IFRS, which could impact the insurers' customer and broker relationships, as well as their current product offerings.

3. Ensure the right resources are in place and that you can develop them internally

Adequate resources (both monetary and personnel) are vital to the success of any change-related project or initiative, although keep in mind that they likely will be scarce in some areas. It is critical to determine in advance the resources you will need during the transition period, as well as when developing knowledge within the organization. If you use external advisors to support project implementation, make sure that their knowledge is transferred to the employees who will be responsible for the project after the implementation phase. Resource needs may change as the project develops, so be flexible enough to react to changes in demands.



4. Develop a robust conversion plan that takes into account your peaks and valleys of activity

Make sure that any detailed project plan takes into account competing demands, includes room for contingencies, and establishes clear accountability for actions and deliverables. Milestones should be clearly articulated but also be realistic: there is no point in setting numerous deadlines on an unachievable timeline.

5. Determine a communication strategy that takes into account all key stakeholders

It is crucial to develop and execute a communication strategy early in the planning process. This will provide the necessary time to communicate significant impacts and areas of possible volatility and risk to stakeholders.

Recognize that stakeholders are both internal and external. Think of the impacts of change on your customer base, broker network, suppliers, regulators and tax authorities. Identifying who needs to know what, and when, is critical to the success of any project.

For example, Part XIII requirements are not solely an issue for foreign insurers. Any purchaser of significant reinsurance contracts from a foreign insurance branch will need to carefully consider the implications for their own compliance with regulatory requirements, as well as on capital deposits/security. This may be a significant concern for foreign branches, which will need to fully consider their customers' needs and satisfaction with their actions.

6. Embrace the opportunity to make changes now and take the chance to make other project efficiencies

In a time of change take advantage of opportunities to update legacy systems and other processes that need improvement. Resistance to change will lessen when you deal with a number of issues under one banner.

In conclusion, while there is no magic formula or precise scientific approach which can be applied to guarantee successful change management, the above principles provide a framework that can help insurers cope, and hopefully produce successful results, in this period of unprecedented change.

Good luck!

For further information, please contact:

[Phil Mather](#)
Senior Manager
416 869 8669
philip.mather@ca.pwc.com

Changes affecting the accounting for investments in debt securities and loans and receivables – Canadian GAAP changes in 2009



Background

In August 2009, the Accounting Standards Board amended the requirements in Section 3855, Financial Instruments – Recognition and Measurement (Section 3855) on accounting for investments in debt securities, such as government debt, corporate bonds, convertible debt, commercial paper, certain in-substance debt instruments such as term preferred shares, and securitized debt instruments. There have been consequential amendments to other aspects of Section 3855 that can affect the accounting for certain types of loans and receivables.

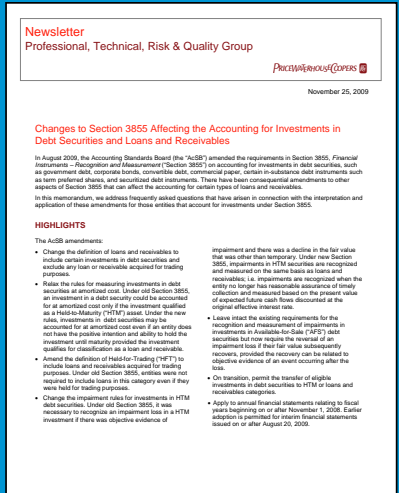
The new requirements are effective for annual financial statements for fiscal years beginning on, or after November 1, 2008. For an entity with a calendar year-end this means that the disclosures will be required in its upcoming December 31, 2009 annual financial statements.

The amendments

- Change the definition of loans and receivables to include certain investments in debt securities and exclude any loan or receivable acquired for trading purposes.
- Relax the rules for measuring investments in debt securities at amortized cost. Under old Section 3855, an investment in a debt security could be accounted for at amortized cost only if the investment qualified as a Held-to-Maturity (HTM) asset. Under the new rules, investments in debt securities may be accounted for at amortized cost even if an entity does not have the positive intention and ability to hold the investment until maturity provided the investment qualifies for classification as a loan and receivable.
- Amend the definition of Held-for-Trading (HFT) to include loans and receivables acquired for trading purposes. Under old Section 3855, entities were not required to include loans in this category even if they were held for trading purposes.
- Change the impairment rules for investments in HTM debt securities. Under old Section 3855, it was necessary to recognize an impairment loss in a HTM investment if there was objective evidence of impairment and there was a decline in the fair value that was other than temporary. Under new Section 3855, impairments in HTM securities are recognized and measured on the same basis as loans and receivables; i.e. impairments are recognized when the entity no longer has reasonable assurance of timely collection and measured based on the present value of expected future cash flows discounted at the original effective interest rate.
- Leave intact the existing requirements for the recognition and measurement of impairments in investments in Available-for-Sale (AFS) debt securities but now require the reversal of an impairment loss if their fair value subsequently recovers, provided the recovery can be related to objective evidence of an event occurring after the loss. On transition, permit the transfer of eligible investments in debt securities to HTM or loans and receivables categories.

Questions?

PwC recently issued a newsletter titled *Changes to Section 3855 Affecting the Accounting for Investments in Debt Securities and Loans and Receivables* which you can find at www.pwc.com/ca/publications. It answers 25 Frequently Asked Questions, and includes a comparison between the new Canadian rules for impairment of debt securities with IFRS and US GAAP.



For additional help, please visit www.pwc.com/ca/publications or contact:

Scott Ewert
Senior Manager
416 869 2384
scott.f.ewert@ca.pwc.com

Fair Value Hierarchy Disclosures – Understanding and applying the new Canadian GAAP requirements in 2009

Background

In 2009 the Accounting Standards Board amended CICA Handbook Section 3862, Financial Instruments – Disclosures (Section 3862), requiring enhanced disclosures about the relative reliability of the data, or “inputs”, used to measure

the fair values of its financial instruments. The new requirements are effective for annual financial statements for fiscal years ending after September 30, 2009. For an entity with a calendar year-end this means that the disclosures will be required in its upcoming December 31, 2009 annual financial statements.

These amendments were in response to criticisms during the financial crisis that disclosures about fair value did not provide financial statement users with sufficient insight about the reliability of fair value measurements. For example, users were not previously able to distinguish measurements based



primarily on observable prices from those based principally on assumptions that could not be verified by reference to external sources. The new requirements mirror changes made to International Financial Reporting Standards in 2009 and are based on requirements for recurring fair value measurements under US GAAP.

The requirements

The new requirements are in paragraphs 27A and B of Section 3862. At the heart of these disclosures is a “fair value hierarchy” that requires companies to classify financial instruments measured at fair value at one of three levels according to the relative reliability of the

inputs used to estimate the fair values. Any instrument within the scope of the Section that has been measured at fair value on the balance sheet must be included within the hierarchy, including all instruments classified as “held-for-trading” or “available-for-sale”.

Questions?

Understanding and applying the requirements can be challenging. PwC recently issued a newsletter titled *The Fair Value Hierarchy Disclosures – Understanding and applying Section 3862* which you can find at www.pwc.com/ca/publications. It helps you understand the requirements so you can prepare these disclosures over the next few weeks for your 2009 financial statements. The newsletter:

- Explains the background to the amendments;
- Reviews and comments on the requirements;
- Gives an illustrative example of their application;
- Outlines steps for preparing the disclosures;
- Identifies and discusses the key drivers to the disclosures;
- Considers the classification of more common types of instruments subject to the requirements, such as quoted equity investments, investments in bonds, interest rate and cross currency swaps and forward exchange contracts; and
- Discusses the transition requirements.



For help go to www.pwc.com/ca/publications or contact:

Scott Ewert
Senior Manager
416 869 2384
scott.f.ewert@ca.pwc.com

Observations on the OSFI Draft Advisory on conversion to IFRS

On October 21, 2009 OSFI released its much anticipated Draft Advisory for conversion to IFRS. This included proposed impacts of adopting IFRS on accounting and capital, as well as providing additional guidance for semi-annual progress reports.

Accounting impacts

One of the most significant accounting impacts is that OSFI intends to prohibit early adoption – IFRS standards with effective dates after 2011 cannot be early adopted in 2011. Such standards might otherwise be available for early adoption by other non-OSFI regulated entities in 2011. This is likely to include the new financial instruments standards, as well as new IFRS standards for leases and employee benefits.

The objective of this is to improve comparability of OSFI regulated entities upon first time adoption. The impact will be that insurers may initially adopt a standard in 2011 for one year and then have to adopt a revised standard for use on an ongoing in 2012, even where the new standard is available in 2011.

Other accounting impacts are that OSFI plans to retain certain of its existing guidelines upon transition, including its additional documentation requirements

for entities electing to use the fair value option for financial instruments contained in its D-10 guideline and for the derecognition requirements for structured settlements contained within its D-5 guidance. In addition, the first IFRS reporting OSFI forms will coincide with Property and Casualty (P&C) forms being prepared on a consolidated basis for the first time.

Capital impacts

The draft OSFI advisory proposes that the use of existing CGAAP insurance methods to calculate minimum capital requirements is retained upon transition to IFRS. Any IFRS differences relating to the treatment of insurance contracts will need to be adjusted for in calculating regulatory capital. Such differences could arise where a contract issued by a Canadian insurer does not meet the definition of an insurance contract under IFRS and is measured differently; either as a financial instrument or a revenue product. These products will

continue to be measured under the previous CGAAP methods for capital purposes, thereby minimizing the impact on capital requirements from adopting IFRS. Potentially, this results in one set of books for financial reporting and a second set of books for regulatory capital calculations, in addition to any other GAAP or group reporting required for subsidiaries or branches of foreign insurers.

OSFI also proposes in the advisory that all IFRS 1 transition adjustments to retained earnings will impact available capital, with an exception for revaluation gains/losses for own-use property which are to be excluded. OSFI is considering a possible phase-in of the transition adjustments over the first 4 quarters to soften the impact on capital in Q1 2011.

Semi-annual IFRS progress reports

Also included in the draft advisory was an additional requirement for OSFI regulated entities to provide in the July 30, 2010 progress reports (assuming calendar year end):

- An opening equity reconciliation from CGAAP to IFRS; as well as



- Accompanying explanations for the transition adjustments.

Insurers will need to be confident in their proposed IFRS accounting policy choices and transition adjustments to be able to do this.

While this is not required to be audited at this time, it is recommended to work with your auditor to ensure they are comfortable with the reported amounts to help avoid potential rework.

Feedback required to OSFI


OSFI is seeking feedback from the insurance industry on the draft advisory by December 31, 2009. This is your chance to engage with OSFI in the guidance-setting process, so we encourage you to provide feedback.

For help with your transition to IFRS, go to www.pwcifrs.ca/insurance or contact:

Alodie Brew
Canadian Insurance IFRS Leader
416 947 8957
alodie.brew@ca.pwc.com

Leigh Chalmers
Partner
416 869 2359
leigh.chalmers@ca.pwc.com

Owen Thomas
Manager
416 365 8816
o.thomas@ca.pwc.com



PwC Insurance Club EyeOpener Breakfast Series - Save the date
Toronto, Ontario

Our next Insurance Club EyeOpener session will be on March 11, 2010. With the filing of year end financials behind you, it will be the opportune time for us to provide you with a summary of the latest IFRS developments and their potential impact on your conversion process.

We will provide an update on IFRS 4 Phase 2 (Insurance Contract Measurement) for which we expect an exposure draft (ED) in the first few months of 2010. We will discuss the recently released IAS12 ED (Income Taxes) and significant number of responses received by the International Accounting Standards Board (IASB). Though neither standard are expected to be effective before December 31, 2011, their implications on the insurance industry could be far reaching.

We will also review the changes to the financial instruments standards (IAS 39) which we anticipate will be released in 2009 under the IASB accelerated timeline. This is one area where Canadian GAAP was closely aligned with IFRS and now we will need to revisit. Finally, for those dealing with consolidation and joint venture accounting (IAS 27 and IAS 31), we expect a final standard to be released in late 2009, which we will provide you with an update.

For more information, contact:

Claire Cornwall
Partner
416 869 2867
claire.cornwall@ca.pwc.com

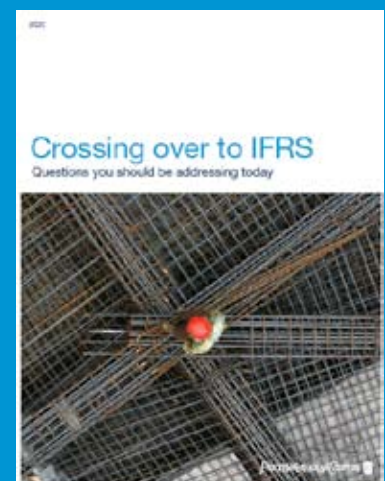
Crossing over to IFRS – Questions you should be addressing today

The 2011 date for mandatory adoption of International Financial Reporting Standards (IFRS) in Canada is in sight and entities now are focusing on preparing first-time IFRS financial statements, including the balance sheet that converts the entity's Canadian GAAP financial statements over to IFRS (the transition balance sheet). In PwC's recent publication titled *Crossing Over to IFRS: Questions you should be addressing today*, found at www.pwc.com/ca/publications, we discuss questions that have frequently arisen about the preparation, presentation and disclosure of this transition balance sheet, and other related issues.

Consider the questions with care. 2011 is closer than it might seem and some decisions, such as financial instrument designations and hedging relationship need to be made and documented by January 1, 2010 if desired accounting outcomes are to be achieved.

Alodie Brew
Canadian Insurance IFRS Leader
416 947 8957
alodie.brew@ca.pwc.com

Leigh Chalmers
Partner
416 869 2359
leigh.chalmers@ca.pwc.com



Breaking News

U.S. proposed changes for accounting for acquisition costs

On November 19, 2009 the FASB's Emerging Issues Task Force (EITF) reached a consensus-for-exposure related to the definition and types of costs that should be considered acquisition costs by insurance entities. Currently acquisition costs include those costs that vary with and are primarily related to the acquisition of insurance contracts. This definition has been interpreted in different ways, resulting in diversity in practice in terms of the types of costs that are being capitalized.

The proposal would redefine acquisition costs as those costs that are "directly related" to the acquisition of new and renewal insurance contracts. In addition, direct costs would include costs such as agent and broker commissions, as well as the portion of selling agent and underwriter salaries, benefits and occupancy costs allocated to successful contract acquisitions, but exclude the portion of such costs relating to unsuccessful acquisitions efforts. These changes could be significant for insurance companies reporting under U.S. GAAP.

Recent PricewaterhouseCoopers insurance publications

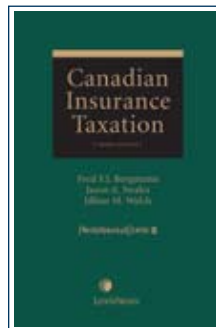
To view these publications, please visit our website at www.pwc.com/ca and click on Publications.



IFRS Readiness in Canada 2009 CFERF Executive Research Report

Conducted by the Canadian Financial Executives Research Foundation, *IFRS Readiness in Canada 2009 Executive Research Report* features results from senior financial executives from 256 organizations. The report shares some companies have barely started

migration, while others — many of the large, established public companies — are well on their way to meeting the 2011 deadline. Visit www.pwcifrs.ca to download your copy.



Now available! Canadian Insurance Taxation, Third Edition

Canadian income tax laws are complex. For insurers, this complexity is compounded by the distinct nature of the insurance industry. The third edition of *Canadian Insurance Taxation* will help insurers identify potential tax problems, make better business decisions and be more effective when discussing these

matters with professional advisors. Copies are now available and can be purchased from www.lexisnexis.ca/bookstore or by calling 1 800 668 6481.



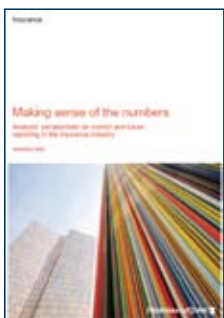
Crossing over to IFRS Questions you should be addressing today

This newsletter contains a memorandum which discusses questions that have frequently arisen about the transition balance sheet, and other related issues, resulting from mandatory adoption of IFRS in Canada in 2011.



Insurance Industry Key Dates and Other Essentials (2009 – 2010)

Insurance Industry: Key Dates and Other Essentials spotlights selected recent tax changes and cases, regulatory dates for Canada, the United States and the United Kingdom.



Making sense of the numbers: Analysts' perspectives on current and future reporting in the insurance industry

In September 2009, PwC interviewed more than 40 investment professionals to understand their thoughts on the current state of insurance reporting and its future direction. Findings reveal widespread dissatisfaction with the current state of financial reporting.



Technology Forecast Fall 2009 edition

This issue of the *Technology Forecast* examines the complexities of enterprise transformation and the modeling tools which assist in creating a whole-enterprise view.

For more information

National Insurance Leader

Jonathan Simmons 416 869 2460

Audit and Assurance Group

Greater Toronto Area

Alodie Brew 416 947 8957
Leigh Chalmers 416 869 2359
Claire Cornwall 416 869 2867
Jonathan Simmons 416 869 2460
Bruce Winter 416 814 5880
Diane Woodruff 416 365 8201

Calgary

Michael Godwin 403 509 7322

Edmonton

Barry James 780 441 6838
Gordon Keiller 780 441 6840

Kitchener

Michael Johnston 519 570 5707

Montreal

Lyne Dufresne 514 205 5298
Alain Dugal 514 205 5091
Kenneth Hotton 514 205 5292
Philippe Thieren 514 205 5377

Quebec City

Raynald Lafrance 418 691 2440

St. John's

Charlie Follett 709 722 3141

Vancouver

Len Boggio 604 806 7016
Jane Butterfield 604 806 7519
Paul Challinor 604 806 7218
Steven Wilson 604 806 7840

Winnipeg

Tony Catanese 204 926 2414
Chris Couture 204 926 2418
Patrick Green 204 926 2430

Actuarial Services

Dan Doyle 416 941 8377
Richard Gauthier 416 941 8341

Tax

Fred Borgmann 416 869 2373
Barbara Bryden 416 869 2668
Wallace Conway 416 365 2710
Martin Kern 519 570 5711
Yves Magnan 514 205 5194
Jason Swales 416 815 5212
Dan Torbiak 204 926 2453
Jillian Welch 416 869 2464
Alfred Yau 416 947 8917

Commodity Tax

Michael Firth 416 869 8718
Mario Seyer 514 205 5285

Transfer Pricing

Emma Purdy 416 941 8433

Advisory

Corporate Advisory and Restructuring
David Planques 416 815 5275

Corporate Finance

Keith Mosley 416 941 8307

Performance Improvement

Rob Belsey 416 814 5894
Allan Buitendag 416 815 5239
Arturo Lopez 416 941 8219

Risk and Regulatory

Diana Chant 416 365 8207
Dorothy Sanford 416 869 2353

Transaction Support

Tony Gibbons 416 941 8241

Valuations

Helen Mallovy-Hicks 416 814 5739

Insurance Claims Services

Leonard Boon 780 441 6716
Jim Forbes 905 972 4105
Kas Rehman 613 755 4328
Bruce Webster 416 815 5250

If there are names you would like us to add to our Insurance Services Group mailing list, or if you would like additional copies of this newsletter, please email financial.services@ca.pwc.com.

The newsletter can also be viewed on our website at www.pwc.com/ca/insurance.

Our services

Our team of professionals offer value-creating ideas, innovative application of leading-edge technology and deep industry experience to our clients, helping them focus on what they do best. The following provides an overview of our key services and value we bring to our clients:

Your business needs									
Solid financial management and controls		Effective strategy, operations and technology		Sound management of risks and regulations		Well executed transactions		Strong tax planning and compliance	
Our solutions	Assurance <ul style="list-style-type: none"> Annual audit 5970/SAS70 Outsourcing contract review 	Operations and strategy <ul style="list-style-type: none"> Growth strategies Transformation of back and front office and support areas 	Risk management <ul style="list-style-type: none"> Financial, credit, trading and actuarial Model validation Enterprise risk management 	Acquisitions <ul style="list-style-type: none"> Capital sourcing Due diligence Valuations, fairness opinions, PPA 	Income and capital <ul style="list-style-type: none"> Planning/recovery Compliance Structuring Risk management 				
	IFRS <ul style="list-style-type: none"> IFRS policy, diagnostics, conversion and embedding 	Customer <ul style="list-style-type: none"> Customer strategy and experience Customer information and profitability 	Regulatory <ul style="list-style-type: none"> Regulatory compliance and investigations 	Divestiture <ul style="list-style-type: none"> Lead advisor Vendor due diligence Valuations 	Indirect <ul style="list-style-type: none"> Planning/recovery Recovery methods Filings Audit support 				
	Accounting support <ul style="list-style-type: none"> Technical accounting Financial instruments Structuring advice 	Technology and data <ul style="list-style-type: none"> IT effectiveness IT architecture Information security Data integrity 	Forensics <ul style="list-style-type: none"> Forensic technology Forensic investigation Dispute analysis 	Merger Integration <ul style="list-style-type: none"> Planning and reporting Identify and resolve risks Identify, quantify, track value drivers 	Transfer pricing <ul style="list-style-type: none"> Planning Compliance/documentation Transactions Audit defence 				
	Financial management <ul style="list-style-type: none"> Strategic cost management Management information Finance transformation 	Business resilience <ul style="list-style-type: none"> Physical security Business continuity Disaster recovery Crisis management 	Internal audit <ul style="list-style-type: none"> Quality assurance Co-sourcing and outsourcing 	Distressed strategy <ul style="list-style-type: none"> Working capital strategies Distressed M&A Restructuring, CCAA 	International <ul style="list-style-type: none"> Expatriate planning/compliance Policy analysis Reorganization Financing 				
	Controls <ul style="list-style-type: none"> Process and controls assessments SOX compliance IT controls 	Outsourcing <ul style="list-style-type: none"> Shared services Business process outsourcing advisory IT outsourcing advisory Service level agreements 	Sustainability <ul style="list-style-type: none"> Social responsibility Climate change Assurance 	Litigation and disputes <ul style="list-style-type: none"> Loss quantification Litigation support Expert witness Mediation/arbitration 	SR&D <ul style="list-style-type: none"> Project identification Data collection Confirmation and filing/audit support 				



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