

SECTION III

Definitions have been included in these instructions to assist insurers with the preparation of their filings.

This section is not a complete set of insurance and insurance accounting definitions or interpretations. It is related specifically to the preparation of the P&C Quarterly and Annual Supplement Returns.

Other definitions are contained in the federal *Insurance Companies Act* and the various provincial and territorial insurance acts.

Additional sources of definitions include:

- [IBC Glossary](#)
- [A.M. Best Glossary of Insurance Terms](#)
- [IRMI Risk and Insurance and Risk Management Terms](#)

However, definitions contained in this section take precedence, for the completion of the P&C return, over any definition of the same terms contained in non-legislative sources.

There may be jurisdictional differences in the interpretations of certain terms; please consult your primary regulator for technical interpretations.

Classes of Insurance Definitions

The classes of insurance are defined below for ease of reference; however, please refer to your primary regulator's legislation or regulations.

The classes of insurance are defined in the order they appear on the forms listed in the return.

Property - Personal means insurance against the loss of, or damage to, property, and includes insurance against loss caused by forgery. It includes such classifications as habitation property and multi-peril policies, including residential contents of buildings such as apartments, rooming houses, motels, manufacturing and mercantile buildings and the liability exposure of personal package policies issued with indivisible premiums. This line would include fire policies, householder contents and homeowner personal risks, residential burglary and theft and special residential glass coverage. Casualty coverage such as personal liability for bodily injury would not be included in this category.

Home Warranty refers to a contract of insurance issued by a warranty provider covering defects in the construction of a new home and consequential losses or costs incurred by the owner.

Product Warranty means insurance not incidental to any other class of insurance against loss of, or damage to, personal property, other than a motor vehicle, under which an insurer undertakes to pay the costs of repairing or replacing the personal property.

Property - Commercial means insurance against the loss of, or damage to, property, and includes insurance against loss caused by forgery and all commercial property and multi-peril policies, but excludes all separate classes of insurance as defined by regulators (i.e. lines 10 through 70 of exhibits showing classes of insurance in the Annual Return).

Classes of Insurance Definitions (cont'd)

Aircraft means insurance against

- (i) liability arising from bodily injury to, or the death of, a person, or the loss of, or damage to, property, in each case caused by an aircraft or the use of an aircraft; or
- (ii) the loss of, the loss of use of, or damage to, an aircraft.

Automobile means insurance

- (i) against liability arising from bodily injury to, or the death of, a person, or the loss of, or damage to, property, in each case caused by an automobile or the use or operation of an automobile;
- (ii) against the loss of, the loss of use of, or damage to, an automobile; or
- (iii) that falls within clause (i) or (ii) of the definition of accident and sickness insurance, if the accident is caused by an automobile or the use or operation of an automobile, whether or not liability exists in respect of the accident, and the policy includes insurance against liability arising from bodily injury to, or the death of, a person caused by an automobile or the use or operation of an automobile.

Insurers are encouraged to report automobile classes of insurance on a basis consistent with those reported to the General Insurance Statistical Agency (GISA) for the statistical plans.

Insurers should report under three sub-classes of coverage on the standard automobile insurance policy form as follows:

	In all provinces excluding Quebec:	In Quebec:
Liability	Section A	Chapter A
Personal Accident	Section B	Endorsements #34, #34A
Other	Section C (include Section D for Ontario)	Chapter B and all other endorsements

Classes of Insurance Definitions (cont'd)

Boiler and Machinery means insurance

- (i) against liability arising from bodily injury to, or the death of, a person, or the loss of, or damage to, property, or against the loss of, or damage to, property, in each case caused by the explosion or rupture of, or accident to, pressure vessels of any kind or pipes, engines and machinery connected to or operated by those pressure vessels; or
- (ii) against liability arising from bodily injury to, or the death of, a person, or the loss of, or damage to, property, or against the loss of, or damage to, property, in each case caused by a breakdown of machinery.

Equipment Warranty means the sub-class of boiler and machinery insurance that covers loss of or damage to a motor vehicle or to equipment arising from its mechanical failure, but does not include automobile insurance or insurance incidental to automobile insurance.

Credit Insurance means insurance against loss to a person who has granted credit if the loss is the result of the insolvency or default of the person to whom the credit was granted.

Credit Protection means insurance under which an insurer undertakes to pay off credit balances or debts of an individual, in whole or in part, in the event of an impairment or potential impairment in the individual's income or ability to earn an income.

Fidelity means insurance against loss caused by the theft, the abuse of trust or the unfaithful performance of duties by a person in a position of trust; and insurance under which an insurer undertakes to guarantee the proper fulfilment of the duties of an office.

Hail means insurance against the loss of, or damage to, crops in the field caused by hail.

Legal Expenses means insurance against the costs incurred by a person or persons for legal services specified in the policy, including any retainer and fees incurred for the services, and other costs incurred in respect of the provision of the services.

Classes of Insurance Definitions (cont'd)

Liability means insurance, other than insurance that falls within another class of insurance,

- (i) against liability arising from bodily injury to a person or the disability or death of a person, including an employee;
- (ii) against liability arising from the loss of, or damage to, property; or
- (iii) if the policy includes the insurance described in sub-clause (i), against expenses arising from bodily injury to a person other than the insured or a member of the insured's family, whether or not liability exists.

Insurers are encouraged to report liability classes of insurance on a basis consistent with those reported to the General Insurance Statistical Agency (GISA) for the statistical plans.

Insurers should report under seven sub-classes of coverage the liability class of insurance as follows:

Comprehensive General Liability (with products) means general liability policy. These include, but are not limited to, the following coverages:

- a) Bodily injury and property damage liability;
- b) Personal injury liability;
- c) Products and completed operations liability;
- d) Employers' liability and voluntary compensation (injury not covered by workers' compensation);
- e) Contractual liability;
- f) Owners', landlords' and tenants' liability.

Comprehensive General Liability (without products) means a CGL policy with an endorsement excluding products and completed operations liability.

Cyber Liability means coverage of risks associated around liability to third parties for losses arising out of the use of e-commerce or internet related activities. Examples of this coverage include:

- a) Privacy liability
- b) Identity theft response
- c) Network computer security
- d) Internet media liability
- e) Cyber extortion

Classes of Insurance Definitions (cont'd)

Directors and Officers Liability means liability as a result of accepting a position within a corporation.

Excess Liability means coverage that operates to supplement limits of liability that are available at the primary level of a particular underlying policy.

For policies that provide pure excess coverage over other separate policies, regardless of the type of liability coverage provided.

Professional Liability means a policy which provides coverage for those “professionals” who have a liability exposure arising from a specialized service provided (e.g. giving advice, providing counselling or administering a service).

Includes errors and omissions and malpractice coverages. Excludes Directors and Officers coverage.

Umbrella Liability means liability coverage that provides both excess coverage for underlying liability policies and primary level insurance for the broader coverage it provides.

Pollution Liability means coverage for pollution or environmental liability that is written as a separate policy.

Other means any insurance written under the liability class of insurance license that does not fall within the above categories.

Mortgage means insurance against loss caused by default on the part of a borrower under a loan secured by a mortgage or charge on, or other security interest in, real property.

Other Approved Products means insurance against risks that do not fall within another class of insurance.

Surety means insurance under which an insurer undertakes to guarantee the due performance of a contract or undertaking or the payment of a penalty or indemnity for any default.

Insurers should report separately for contract surety and all other surety.

Classes of Insurance Definitions (cont'd)

Title means insurance against loss or damage caused by

- (i) the existence of a mortgage, charge, lien, encumbrance, servitude or any other restriction on real property;
- (ii) the existence of a mortgage, charge, lien, pledge, encumbrance or any other restriction on personal property;
- (iii) a defect in any document that evidences the creation of any restriction referred to in sub-clause (i) or (ii);
- (iv) a defect in the title to property; or
- (v) any other matter affecting the title to property or the right to the use and enjoyment of property.

Marine means insurance against

- (i) liability arising from
 - (A) bodily injury to, or the death of, a person; or
 - (B) the loss of, or damage to, property; or
 - (C) the loss of, or damage to, property, occurred during a voyage or marine adventure at sea or on an inland waterway, or during a delay or a transit other than by water that is incidental to a voyage or marine adventure at sea or on an inland waterway.

Accident and Sickness means insurance

- (i) against loss resulting from bodily injury to, or the death of, a person caused by an accident;
- (ii) under which an insurer undertakes to pay a sum or sums of money in the event of bodily injury to, or the death of, a person caused by an accident;
- (iii) against loss resulting from the sickness or disability of a person not caused by an accident, but excludes loss resulting from the death of the person as a consequence of sickness;
- (iv) under which an insurer undertakes to pay a sum or sums of money in the event of the sickness or disability of a person not caused by an accident; or
- (v) under which an insurer undertakes to pay a sum of money in respect of the health care, including dental care and preventative care, of a person.

Other Definitions

Acquisition Expenses

Policy acquisition expenses are those expenses incurred in the acquisition of new and renewal business. They include items such as commissions, premium taxes and an allocation of operating expenses.

Ancillary Operations

Any function that provides support or service to the insurance or investment operations can be considered an ancillary operation.

Associate

An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. “Significant influence” is defined in accordance with IFRS. For further detail on the definition of the term “associated”, please refer to OSFI’s [MCT Guideline](#).

Claims Ratio

With respect to any particular period, for any policies issued by an insurer for a particular class of insurance, the ratio of claims incurred, including adjustment expenses, during that period under those policies, to net premiums earned during that period for those policies, expressed as a percentage.

Claims Ratio - By Year of Accident

The claims ratio calculated using the claims and premiums pertaining to a specific accident year.

Claims Ratio - By Year of Account

The claims ratio calculated using the claims and premiums pertaining to a specific calendar year.

Other Definitions (cont'd)

Contingent Commission

Any commission not exclusively attributable to premium volume is a contingent commission and would be considered non-deferrable. Refer to the instructions for page 80.10 for further details on commissions.

Control

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, in accordance with the meaning of the term under IFRS.

Counselling Fees

Fees paid for investment advice.

Deferred Commissions

The estimated amount of commission expense on direct and assumed premiums relating to the coverage period beyond the current year end. Deferred commissions arising from direct and assumed business must not be reduced by unearned commissions arising from ceded business, and must be estimated by class of insurance.

Experience Rating Refunds

A refund to the insured that is based on a clause or agreement in an insurance contract that allows the insured to share in the favourable underwriting results of the contract. Also known as a “retrospective rating refund.”

Financing Reinsurance

Where an agreement that is called a reinsurance agreement does not have as its primary purpose the transfer of insurance risk, such an agreement will be regarded as a financing or funding agreement rather than a reinsurance agreement and must be reported accordingly.

Government Grade

Refer to the [*Minimum Capital Test \(MCT\) Guideline*](#) for guidance on government grade obligations.

Other Definitions (cont'd)

Incurred But Not Reported (IBNR)

The additional claim reserves established to cover claims, including related adjustment expenses, which have occurred but which have not been reported to the insurer before the date of valuation, and for additional reserves set up to allow for an anticipated development in case reserves.

IFRS

International Financial Reporting Standards, as contained within “Part I” of the *CPA Canada Handbook*.

Insurance-Linked Securities

An insurance-linked security (ILS) is any instrument by which insurance risk is transferred to capital markets. While not exhaustive, such instruments would include catastrophe bonds, swaps, industry loss warranties, derivatives contracts and sidecars.

Insurer

Includes insurance companies, reinsurance companies, (farm) mutual insurance companies or societies, captive insurance companies, and reciprocal insurance exchanges. In Quebec, certain professional corporations are also considered insurers.

Internal Target Capital Ratio

The level of capital, based on the company’s own risk and capital adequacy assessment process, necessary to cover the risks specified in the capital tests as well as all other risks of the insurer. Refer to OSFI’s [Guideline A-4](#) for further details.

Investment Properties

Investment in land and/or buildings other than for use in the insurance operations of the insurer.

Other Definitions (cont'd)

Joint Venture

A contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Net Retention

- Insurers

The maximum amount of **net** insurance coverage that the insurer retained in the reporting period on any one risk or exposure in the particular class of insurance, either by underwriting the risk for its own net account, or after the application of all reinsurance recoveries applicable to the risk.

- Reinsurers

The maximum amount of coverage that the reinsurer accepted in the reporting period on any one risk or exposure in the particular class of insurance, either on a given assumed treaty or on a group of treaties covering the same risk or exposure for the same ceding insurer, either by underwriting the risk for the reinsurer's net account, or after exhaustion of all retrocession recoveries applicable to the risk.

Notional Principal Amount

The notional principal amount is:

- (i) the stated notional amount, except where the stated notional amount is leveraged or enhanced by the structure of the transaction. In these cases, insurers must use the actual or effective notional amount when determining potential future exposure;
- (ii) nil, where the credit exposure on single currency floating/floating interest rate swaps would be evaluated solely on the basis of their marked-to-market value; or
- (iii) for contracts with multiple exchanges of principal, the sum of the remaining payments.

Nuclear Risk

Nuclear risk is not a separate class of insurance. The physical damage portion of nuclear risk coverage must be reported as property insurance, and the third-party liability portion must be reported as liability insurance.

Other Definitions (cont'd)

Policy Limit

- Insurers

The maximum amount of insurance coverage that the insurer provided during the reporting period on any one risk in the particular class of insurance.

- Reinsurers

Not applicable.

Policy Dividends

Amounts paid to participating policyholders as determined by the insurer, and as prescribed by the insurance contract.

Premium Deficiency

A premium deficiency exists where the unearned premiums will not be sufficient to discharge all the expected liabilities that will accrue to the policies, including all expenses associated with the servicing of the policies.

Private Passenger Auto excluding Farmers (PPAxF)

PPAxF is defined as a combination of type of business 0, 1, 4, 5, 8, 9 and type of business 1-19. Other personal-use vehicles are classified as non-private passenger. All commercial vehicles including public-use vehicles are to be classified as non-private passenger.

Rating Refunds

Refer to the definition of **Experience Rating Refunds**.

Reciprocal Insurance Exchanges

A group of subscribers exchanging reciprocal contracts of indemnity of inter-insurance with each other through a principal attorney as defined in some provincial jurisdictions.

Other Definitions (cont'd)

Registered and Unregistered Insurer

The terms “registered” and “unregistered” are relevant in determining whether credit can be taken for reinsurance placed by federally regulated insurers and provincially incorporated insurers, respectively.

Please refer to the [MCT Guideline](#) for further clarification.

- Provincially Incorporated Insurers:

Registered insurers in a particular jurisdiction are insurers that are licensed in that jurisdiction. Certain regulators will also accept (re)insurers not licensed in their jurisdiction, but incorporated and licensed in another jurisdiction, as registered. Please verify with your primary regulator.

Unregistered insurers are insurers not licensed by one or more provincial regulators, and are not federally registered.

Regulator

The federal, provincial or territorial government agency responsible for the control and regulation of the insurance industry under its jurisdiction. The primary regulator is the regulator in the jurisdiction under which the insurer (a) obtained its order to carry on business; or (b) was incorporated.

Retrospective Rating Credits

Refer to the definition of **Experience Rating Refunds**.

Salvage and Subrogation Recoverable

Salvage is the residual value that belongs to the insurer as a result of paying an insured's claim for the property covered by a policy issued by the insurer.

Subrogation is the assumption by an insurer of an insured's legal right to collect damages.

Other Definitions (cont'd)

Short-Term Investments

Includes items such as treasury bills, commercial paper, short-term unsecured promissory notes issued by financial institutions and industrial corporations, interest-bearing deposits with a deposit-taking institution, bank deposit certificates, trust company guaranteed investment certificates, bonds and debentures.

Significant Dependencies

Examples include 10% or more of total premiums from one source; fundamental operations or systems provided by others (claims, information technology, policy issuance, etc.).

Structured Settlements

Refer to "[Section IV](#) - Special Topics."

Subordinated Indebtedness

Includes all indebtedness of the insurer that, in the event of the insolvency or winding-up of the insurer, are subordinate to all policy liabilities of the insurer and all other liabilities except those that rank equally with, or are subordinate to, such indebtedness.

Refer to the MCT Guideline for further information.

Subsidiary

In accordance with IFRS, a subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).

Substantial

Any share transfer involving 10% or more of the voting rights or any transfer of shares that result in a change of control of the insurer.

Other Definitions (cont'd)

Substantial Investment

For federally registered insurers, section 10 of the *Insurance Companies Act* (ICA) defines a substantial investment as follows:

- “the voting rights attached to the aggregate of any voting shares [owned] exceed 10 per cent of the voting rights attached to all of the outstanding voting shares;”
or
- “the aggregate of any shares” which are owned “represents ownership of greater than 25 per cent of the shareholders’ equity.”

Subsection 495(4) of the ICA provides that a property and casualty insurance company wanting to acquire or increase a substantial investment in a financial institution must control the financial institution (that is, must have more than 50% of the votes to elect directors), except as permitted under subsection 495(5).

For provincially incorporated insurers, please consult with your primary regulator for any jurisdictional differences.

UCAE

Refers to Unpaid Claims and Adjustment Expenses (including IBNR).

Unearned Commissions

The estimated amount of commission revenue on ceded premiums relating to the coverage period beyond the current year end. Unearned commissions arising from ceded business must not be reduced by deferred commissions arising from direct and assumed business, and must be estimated by class of insurance.

Other Definitions (cont'd)

Unrecognized (Assets and Liabilities)

Assets and liabilities that are not recognized under applicable accounting standards and are off balance sheet.

Unregistered Insurer (Company)

Refer to the definition under **Registered and Unregistered Insurers**.

Unregistered Reinsurer

Refer to the definition under **Registered and Unregistered Insurers**.