PACICC

Property and Casualty Insurance Compensation Corporation

Insolvency protection for home, car and business insurance customers

Annual Report 2007

PACICC fast facts for 2007

Insurance company liquidations supported by the Property and Casualty Insurance Compensation Corporation (PACICC) at year-end 2007 were mostly at a mature stage. Only 232 known claims remain to be settled. During 2007, payments totaling $3,996,349 were made to or on behalf of 82 policyholders. Since its establishment in 1988, PACICC has paid out close to $100 million to or on behalf of approximately 10,000 policyholders.

PACICC covers most claims under policies issued by property and casualty (P&C) insurance companies. Policies not covered are of a specialist nature, such as marine, aviation and fidelity. PACICC limits payments for covered indemnity claims to a maximum of $250,000 for each occurrence ($300,000 for personal property claims). In addition, unearned premium refunds are paid to a maximum of $700 (70 percent of $1,000).

Mission Statement

The mission of the Property and Casualty Insurance Compensation Corporation is to protect eligible policyholders from undue financial loss in the event that a member insurer becomes insolvent.

We work to minimize the costs of insurer insolvencies and seek to maintain a high level of consumer and business confidence in Canada's property and casualty insurance industry through the financial protection we provide to policyholders.

Principles

- In the unlikely event that an insurance company becomes insolvent, policyholders should be protected from undue financial loss through prompt payment of covered claims.
- Financial preparedness is fundamental to PACICC's successful management support of insurance company liquidations, requiring both adequate financial capacity and prudently managed compensation funds.
- Good corporate governance, well-informed stakeholders and cost-effective delivery of member services are foundations for success.
- Frequent and open consultations with members, regulators, liquidators and other stakeholders will strengthen PACICC's performance.
- In-depth P&C insurance industry knowledge – based on applied research and analysis – is essential for effective monitoring of insolvency risk.

Key accomplishments in 2007

- Developing and implementing a comprehensive Enterprise Risk Management (ERM) plan. This was PACICC's main priority for 2007. The work was completed on schedule and with substantive input from industry experts in risk management and from the PACICC Board. As a direct result, PACICC is now focusing on six priority risks facing the Corporation and implementing action plans designed to mitigate those risks
- Securing approval from insurance supervisors for PACICC's new package of coverage and benefits – including a higher limit for personal property claims, but maintaining the status quo for commercial coverage and the refund of unearned premiums
- Issuing the first in a series of *Why insurers fail* research studies to be undertaken by PACICC – the first-ever study to examine the causes of some 35 P&C insurance company failures occurring in Canada between 1960 and 2005
- Commissioning comprehensive research identifying possible reforms to Canada's *Winding-Up and Restructuring Act* – the legislation under which PACICC operates – and securing Board approval for a work plan to support this as our priority issue for 2008

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In 2007, Canada's P&C insurance industry enjoyed a fifth consecutive year of capital growth and healthy earnings. In this environment, the risk of insurer insolvency in Canada has been significantly reduced compared to the period of weakness experienced during 2001-02. A key indicator of insolvency risk is the number of "staged" insurers – companies designated by insurance supervisors as showing signs of possible financial distress. The federal solvency regulator, OSFI, reported that the number of staged P&C insurers continued to decline in 2007. The industry's overall capital ratio remained strong in 2007, although capital growth was at its slowest rate in four years.

Financial strength notwithstanding, some signs of weakness began to emerge in 2007 – notably an increase in automobile insurance claims frequency and severity in several provinces. The past year has also seen considerable financial market volatility. Due to the conservative, high-quality fixed-income investments held by most P&C insurers in Canada, the industry's exposure to sub-prime debt concerns is minimal. (This particular issue is discussed in greater detail in the *Business environment* section of this report, starting on page 8). Most important, PACICC continues to observe significant variations in financial performance among its member companies.

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Some of our member companies may occasionally wonder what a financial guarantee fund like PACICC does when it is not being called upon to respond to newly-occurring insurance company failures. The answer, in short, is that we work hard to strengthen and improve our preparedness for when the next call does come. Notable in this respect is PACICC's recent doubling of its annual, potential financial capacity to more than $500 million. Having addressed this and other possible preparedness gaps, PACICC turned its attention in 2007 to better managing internal and external risks that could potentially threaten the Corporation's continued success – by developing and implementing an Enterprise Risk Management (ERM) plan.

Managing enterprise risks

ERM provides an *integrated* framework for managing all of the material risks identified by an organization. Material risks need to include all potential high-impact events, even where the likelihood of occurrence is considered low. Absent the integrated, systematic approach offered by ERM, corporate risk management tends to be fragmented and restricted to the "silos" of individual business units, potentially missing opportunities to reduce risk across the entire enterprise.

P&C insurers are facing increased pressures to demonstrate effectiveness in managing enterprise-wide risks. In part, this is because ERM is now widely viewed as a best practice for many businesses. And because risk transfer and the ability to respond to unexpected and sometimes volatile events is inherent in the business of P&C insurance, the case for ERM "done right" becomes even more compelling.

Stronger advocacy and guidance for ERM is also coming from rating agencies and from insurance supervisors. All of the major rating agencies have developed methods of assessing the adequacy of risk management capabilities in the financial strength ratings they produce for individual P&C insurers. Underscoring the importance of ERM, A.M. Best, in its 2007 Canadian Property/Casualty industry review stated that "companies that engage in sound risk management typically are less likely to fail." And in October 2007, the International Association of Insurance Supervisors (IAIS) issued a guidance paper entitled "Enterprise Risk Management for Capital Adequacy and Solvency Purposes." As the title of the guidance paper suggests, supervisors understand the desire of P&C insurers to utilize ERM as a means of deploying capital more efficiently. Accordingly, supervisors are beginning to clarify their expectations regarding what an effective ERM framework should contain. The IAIS has done this by way of "key features" addressing such factors as the need for quantification of risks related to (at minimum) underwriting, credit, market, operational and liquidity risks; direct involvement and leadership by an insurer's senior management and Board of Directors; and clarification of risk tolerance and methods of monitoring risks. Because regulatory guidance is often a precursor of more specific policies, PACICC member companies should reasonably expect insurance supervisors in Canada to develop their own ERM-related standards in the near future.

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PACICC has developed its own ERM plan primarily because it represents good business practice. But we also believe that ERM can help reduce the risk of insurer insolvency. In this respect, PACICC is "leading by example" and strongly encourages its member companies to adopt effective ERM policies of their own. During the first quarter of 2008, we distributed an issues paper to our member CEOs summarizing key aspects of ERM as it applies to the P&C insurance industry. You will also find a summary of PACICC's current ERM plan priorities on page 14 of our 2007 Annual Report.

Your Board of Directors

During 2007, two noteworthy changes occurred on the PACICC Board. Igal Mayer resigned as a Director to assume his new duties as CEO of Norwich Union Insurance in the U.K. Igal was replaced on the PACICC Board by Robin Spencer, Aviva Canada's new President and CEO. On behalf of all of our Directors, I thank Igal for the substantive contributions he made to PACICC during five years of service, and I extend a warm welcome to Robin Spencer as a new member of the Board.

My thanks to all of our Directors for the valuable work they continued to perform in 2007 to ensure that PACICC's insolvency preparedness remains at a high level. In this respect, the Board and the membership as a whole have again been ably served by Paul Kovacs and his management team – in particular, for seeing through the implementation of the changes and improvements made to PACICC's coverage and benefits, and for the successful launch of the Corporation's ERM plan.

As PACICC enters its 20th year of operation, our focus is on ways to improve insurance company liquidation practices. This is consistent with the strategic direction that members and insurance supervisors have encouraged the Corporation to take. As Canada's P&C insurance industry guarantee fund, it is important for PACICC to be proactive about making improvements to its business environment. Early identification of priority industry issues, and taking appropriate actions to address them, continues to be fundamental to PACICC's success.

For the period 2008 to 2010, PACICC's strategic plan will focus on three priorities. In 2008, we will seek to improve insurance company liquidation practices, with an emphasis on identifying and advocating changes in Canada's *Winding-Up and Restructuring Act* (WURA). PACICC will bring forward a convincing, credible case for changes to WURA during 2008. However, we need to be mindful that reforms will take time to implement as the Federal government's legislative priorities and timetable are different from PACICC's. In 2009, we will seek to strengthen the incentives for insurer financial health, focusing on possible introduction of risk-based assessments and research related to premium tax offsets by member insurers for insolvency-related assessments. In 2010, PACICC's plan calls for strengthening our operational preparedness, including a comprehensive review of the Corporation's readiness to respond operationally to a range of possible insurer failure scenarios.

In 2008, we will seek to improve insurance company liquidation practices, with an emphasis on identifying and advocating changes in Canada's *Winding-Up and Restructuring Act* (WURA).

Improving insurance company liquidation practices

A key element of PACICC's work in 2008 will be a comprehensive review of the WURA to improve insurance company liquidation practices. This is the Federal legislation that governs the winding-up of insolvent insurance companies in Canada. We will seek to identify prospective changes to the Act that would improve the management of insurance company insolvencies for PACICC, its members, liquidators and regulators. Issues to be considered may include:

- the scope of legislation for restructuring or rehabilitating an insolvent P&C insurance company
- clarification of the inspector's role in the winding-up of insurance companies to help ensure PACICC's involvement in key decisions

- modifications to WURA to deal more effectively with the liquidation of a financial conglomerate
- reforms that would help to shorten the time period required to fully wind-up an insolvent insurance company (more than 15 years in some cases), where the goal is to reduce aggregate liquidation costs and to bring greater financial certainty to claimants and creditors
- changes to PACICC's operating rules and processes in response to possible WURA reforms.

WURA governs the insolvency proceedings of failed financial institutions in Canada, primarily insurance companies and banks (a sector with $2.2 trillion in assets). The purpose of the WURA is to run-off the affairs of an institution as inexpensively and quickly as possible, in the interests of creditors and all other stakeholders. The legislation governs the entire liquidation process, including the role and powers of court-appointed liquidators and the ranking and handling of creditor claims. The legislation greatly influences how PACICC fulfills its mission. While the financial sector has undergone substantial structural changes in recent decades, it is surprising and significant that there has been no comprehensive review of the WURA since the late nineteenth century.

PACICC's research will provide a solid foundation for developing recommendations to modernize Canada's WURA legislation. This will allow for more streamlined processes, and we hope, lead to less expensive and improved liquidation outcomes.

A rapidly changing financial sector requires periodic legislative review to ensure that insolvent financial institutions are wound-up using the best, most successful practices available. As the largest users of the WURA, the P&C industry is uniquely positioned to be a leader in reviewing and modernizing the legislation.

PACICC's research will provide a solid foundation for developing recommendations to modernize Canada's WURA legislation. This will allow for more streamlined processes, and we hope, lead to less expensive and improved liquidation outcomes. PACICC's 2008 WURA workplan will focus activities in three broad areas:

1. Consensus building

PACICC will seek to forge a consensus among guarantee funds and key stakeholders on a framework of principles and direction for modernization. This will not necessarily require consensus on all technical points. Relevant research will be conducted to confirm PACICC's role as a credible source of WURA knowledge and expertise.

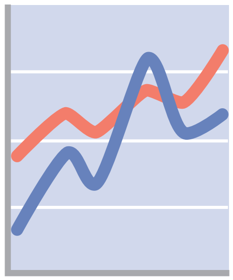
2. Government relations

Recognizing that the WURA is a relatively non-contentious, but lower-priority issue on the legislative agenda of a minority government, PACICC will seek to enhance government awareness of stakeholder consensus regarding proposed reforms. The goal will be to mobilize quickly when opportunities arise on the legislative calendar.

3. Implementation

PACICC will focus on implementing improvements to the liquidation process, including: utilizing loan agreements as a standard procedure in liquidations, and adopting a new model winding-up order, and clearer rules governing reinsurance recoverables.

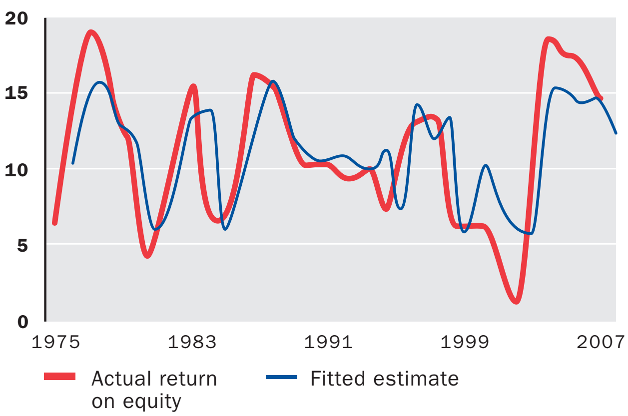
In closing, I extend my thanks and appreciation to the Corporation's Board of Directors for their guidance over the past year, and to my colleagues at PACICC for their continuing high-quality work. As we enter a third decade of service, PACICC is well-focused on issues that matter most to consumers and members alike and well-positioned for continuing success in the years ahead.



THE INSURANCE CYCLE is turning. The favourable conditions, from a solvency perspective, of the last few years have weakened. Premium and claims trends indicate that while still profitable, the industry's net income and return on equity (ROE) are falling and solvency risk is increasing again.

While the cycle is turning, this downturn is not expected to be as severe as the previous one because claims costs are not growing at the alarming rate experienced in the late 1990s. Also, insurance companies have better adapted to a low interest rate environment. However, the combination of rising claims costs and economic developments in the latter half of 2007 – namely the subprime crisis and the move toward parity by the Canadian dollar – warn that 2008 could turn out to be a turbulent year for Canada's insurers.

Canadian P&C insurance cycle



Source : IBC

Underwriting environment

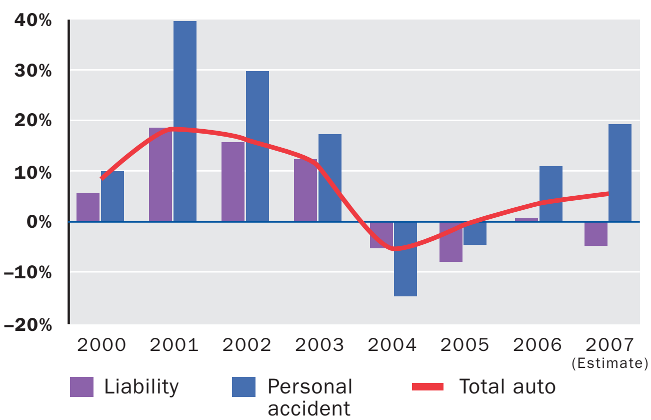
PACICC's business, the involuntary market exit of insurers, is closely linked to profitability and the insurance cycle. Periods of poor profitability increase the risk of insolvency for some companies, as limited capital may be further eroded by adverse claims development. In the United States, research by A.M. Best found a high correlation (60%) between the underwriting cycle and insolvency. PACICC's research confirms that Canadian insolvency risk is similarly linked to the insurance cycle.

Insurers have failed during each of the previous soft markets experienced by the P&C insurance industry. Over the last thirty years, the P&C insurance industry has experienced three waves of involuntary exits. The first wave coincided with the market softening between 1977 and 1980. The second wave followed the beginning of the longest soft market in Canadian insurance history, from 1988 to 1995. Thirty-two insurers have failed over the last thirty years, including six P&C insurers during the period between 2000 and 2003.

In the key auto insurance segment, which represents nearly half of the industry by premium volume, claims costs in 2007 increased nearly three times faster than premiums. Claims costs have been stable or declining modestly in the liability segment of the automobile insurance product. The February 2008 decision of Alberta Court of Queen's Bench regarding caps on minor personal injuries, if upheld on appeal, will impose significant unreserved costs on insurers in Alberta and Atlantic Canada and likely reverse the trend in liability claims costs. Of particular concern for the Ontario automobile insurance market, is the growth in accident benefit claims costs. Claims costs for vehicle damage have also increased in recent periods. Premiums in all auto insurance segments were stable or declined, resulting in higher loss ratios.

After a lull in 2006, property insurance claims costs during 2007 were once again influenced by severe weather as the remnants of Atlantic hurricanes generated flooding and property damage in the Atlantic provinces. Seasonal storms in the prairies adversely affected property lines in Western Canada. As a result, loss ratios in property lines worsened last year.

Trends in automobile insurance claim costs



Source: PACICC, with data from MSA Research

Overall, industry underwriting profitability is down, driven by worsening loss ratios in all lines of business. The number of insurance companies experiencing net losses in 2007 was greater than at any time since 2001 and 2002, a period that saw the insolvency of three member insurance companies.

The subprime crisis

Toward the end of 2007, the problems of the U.S. housing market and subprime crisis had migrated to the balance sheet of many financial institutions and in the New Year, to the world's stock markets as a result of heightened concern about recession in the United States. The decline of the S&P/TSX composite index during a single week in January erased all the gains made during 2007. In early 2008, international banks and financial institutions, including several Canadian institutions, took significant writedowns on these subprime-linked securities, totalling more than $100 billion. The Economist estimated that $5 trillion vanished from the balance sheets of public companies in the early weeks of 2008. In this environment, many financial institutions also sought to shore up their balance sheets by raising additional capital. Most market analysts expect subprime mortgages will be a continuing source of uncertainty through 2008 and 2009, as more U.S. mortgages reset, triggering further defaults.

Canada's P&C insurance industry has little direct exposure to subprime instruments as most insurer assets are invested in government bonds. Insurers generally hold few equities in their investment portfolios, although some individual insurers have higher levels of equity holdings. Alone, neither the subprime crisis nor an economic downturn is directly expected to result in the insolvency of a PACICC member insurer, although their convergence could present a challenge. Where the subprime crisis and economic downturn does have greater potential to affect Canada's P&C insurance industry is through contagion from other sectors of the financial industry and the "flight to quality."

Many P&C insurance companies are members of a financial group or conglomerate encompassing financial institutions outside of the P&C industry. While the P&C insurer within the group may not be directly exposed to subprime-related losses, some member insurers have affiliates or parent companies that do have exposure.

With financial market volatility, investors have sought to rebalance their portfolios by moving to safer Government of Canada bonds. Even as demand for these securities has increased, the supply of such safe instruments has been shrinking. A decade of budget surpluses and debt reduction by government has meant that the supply of gross federal debt securities has declined during the past decade by $66.2 billion, including $17.7 billion in 2007. According to data from the Bank of Canada, net new issues were a negative $7 billion in 2007, even as P&C insurer holdings of Government of Canada securities increased by $2.2 billion. Within this context of declining new issues and a maturing secondary market, government has opted to eliminate a few maturities to maintain greater liquidity than would otherwise be sustainable under projected government debt requirements. Over time this trend may make the matching of investments and liabilities a more challenging exercise for insurers.

Government of Canada bond yields

January 2007 to January 2008

Source: PACICC, with data from the Bank of Canada

A consequence of increased demand and reduced supply is lower yields. In the second half of 2007, Government of Canada average bond yields for maturities less than ten years fell by 25% - 30%, reversing the trend of increasing yields in the first half of the year. The spread between government and commercial instruments narrowed in early 2008 but the gap remained larger than in early 2007. Declining investment yields, combined with deteriorating underwriting results indicates a higher solvency risk environment in 2008 for Canada's insurers.

Dollar parity

The impact of currency fluctuations is limited for a majority of insurers, however there is some variation in exposure. The Canadian dollar was one of many currencies experiencing strength relative to the U.S. dollar during 2007. High commodity and oil prices, strong fiscal and trade surpluses and weakness in the U.S. economy resulting from the subprime crisis all contributed to the appreciation of our dollar.

The last time the Canadian dollar approached parity was more than 30 years ago, back in 1976. The appreciation of the currency was in contrast to the all-time low recorded against the U.S. dollar in January 2002. Since then the Canadian dollar has appreciated steadily, rapidly ascending in the latter half of 2007. Since 2002 the Canadian dollar has appreciated 60%, with nearly half of that in the last two quarters of 2007.

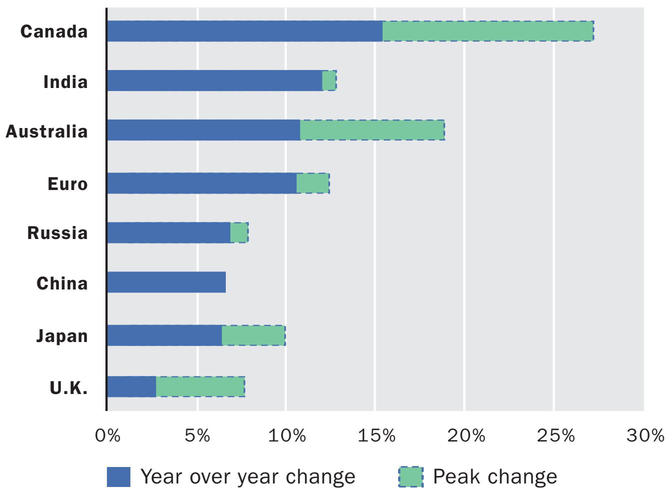
While the Canadian dollar has been strongest against the U.S. dollar it also appreciated against the other major currencies, albeit to a lesser extent. Commodity price fluctuations, the aftershocks of the subprime crisis and global economic prospects will be key currency drivers in 2008.

The vast majority of P&C insurance company transactions and assets are in Canadian dollars and are unaffected by currency markets. Besides direct transactions and foreign currency denominated investments, insurers may be exposed to currency fluctuations through other channels, including:

- reinsurance
- ownership of foreign subsidiaries
- increased claims activity
- exposure from a foreign parent company
- the impact on the broader economic environment.

PACICC member insurance companies hold approximately 5.6% of their total investments in foreign currency denominated instruments. Most member insurers (81%) do not hold any foreign currency investments and are not affected by currency fluctuations. For a small number of member insurers, foreign currency investments represent a significant component of their total investments. The majority of these investments are in U.S. dollars with a minority in the pound sterling or the Euro. The appreciation of the Canadian dollar relative to these currencies would have reduced the value of these investments. Early estimates of the aggregate impact of Canadian dollar appreciation on foreign currency denominated investments held by PACICC members (before accounting for portfolio rebalancing) are a $534 million reduction in market value.

Currency appreciation versus $US during 2007



Source: PACICC, with data from the Bank of Canada

The shift to fair value accounting may affect the Minimum Capital/Branch Adequacy of Assets Test scores for some member companies due to currency-related reductions in investment values. On its own, currency appreciation would not bring the risk-based capital ratio of any member insurer down to the supervisory target – but it is an additional risk factor for some companies in a softening market.

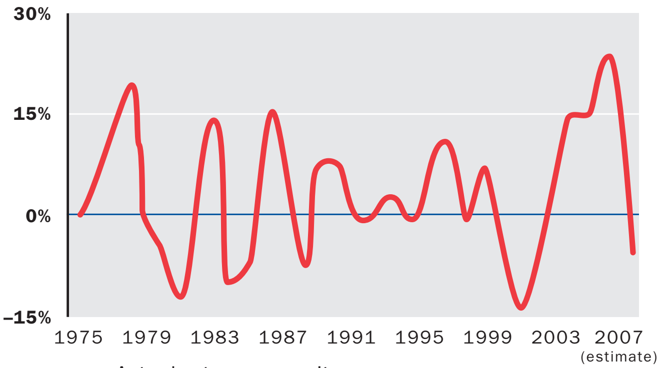
Foreign parents of Canadian insurers would be exposed to currency fluctuations in the preparation of the consolidated financial statements for the parent company. With Canadian dollar appreciation, the value of the Canadian operations would have increased. A higher Canadian dollar makes it more expensive for a foreign parent to provide capital to its Canadian subsidiaries. If the higher Canadian dollar persists, particularly against the U.S. and European currencies, and market conditions continue to soften, this may be a larger consideration.

Looking ahead

The P&C industry outlook for 2008 is potentially more turbulent than it has been in the past few years. Fewer companies are recording an underwriting profit than a year ago. Deteriorating underwriting results, subprime exposures to parents and affiliates, volatility in financial markets – particularly in interest rates – and the threat of severe weather events represent the most immediate risks to insurer solvency in 2008. While the industry is well capitalized, having finally rebuilt the capital that was lost during the period 2000 to 2002, large variations persist in insurer financial health. A confluence of environmental risk factors could present challenges for 2008.

Risks related to underwriting are the main cause of insolvency in the P&C insurance industry. However, financial market risk is also a significant potential contributor. Insurance companies hold large investment portfolios, exposing them to wide a range of financial market risks. Canadian P&C insurers are conservative investors, and in recent years many firms have further reduced their investments in equities and increased the share of government bonds in their portfolios. This reduces exposure to the volatility and risks of the equity markets, but increases exposure to interest rate risk. With declining or stable rates, interest rate risk has had a low profile.

Growth in capital in excess of growth in claims



Source: PACICC, with data from IBC

However, financial market volatility, if persistent, will increase interest rate risk and generate potentially adverse effects on insurer balance sheets. Interest rate changes are often gradual. Bond portfolios turn over steadily and changes in market interest rates are usually accompanied by changes in the book valuation rate for assets, which lowers interest rate risk. This risk is more likely to be significant where there is increased volatility in interest rates, which has historically been correlated with a higher risk of insurer insolvency. In a fair value accounting world, greater interest rate volatility increases insolvency risk, particularly for insurers operating at or near the margin.

If the threat of an economic downturn in the United States materializes, it has the potential to reduce growth opportunities and make policyholders more resistant to price increases. In this environment, downward pressure on premiums from the demand side combined with rising claims costs may place increased stress on the solvency of member insurers.

Further complicating the outlook for 2008 is the application of new accounting rules on fair value measurement. The introduction of these new accounting standards has altered the explanatory power of several traditional financial measures used in assessing performance and warning of financial distress. In particular, preliminary analysis indicates that it is possible to achieve diverse results with the same data under the new accounting standards. This presents added challenges for Boards of Directors, supervisory authorities and guarantee funds – as the confidence in the underlying correlations of traditional financial indicator variables is reduced.

PACICC's Board of Directors approved an ERM plan for the Corporation toward the end of the 2007 calendar year. Implementation of the ERM plan will occur during 2008. PACICC's main focus will be on additional mitigation needed to better control six risks identified as priorities because of the higher ratings assigned to them from among a total corporate risk register containing more than 30 individual risks. The accompanying table summarizes PACICC's priority risks and current risk ratings.

Risk	Current rating	
	Impact	**Likelihood**
1. The insurance supervisory frameworks of certain provinces in Canada do not meet the standards recommended by the International Association of Insurance Supervisors (IAIS)	High	High
2. Provincial regulation of insurance rates may contribute to solvency problems for certain insurance companies due to the potential conflict between market conduct and solvency supervisory objectives	High	High
3. PACICC may not be fully prepared operationally to respond to failure of a larger member company, or to multiple, smaller-company failures	Medium	High
4. PACICC could face insolvency-related costs that exceed, or severely stretch, its available financial resources	Very high	Very low
5. Outdated legislation may be precluding the use of more efficient, lower-cost best practices in the winding-up of insolvent insurers in Canada	Medium	High
6. Current processes to ensure that confidential information held by PACICC is appropriately protected may require strengthening	High	Low

Each individual risk is considered in relation to pre-established rating criteria to assess its potential impact on the organization and its likelihood of occurrence. To determine the impact rating for a risk, PACICC takes account of both financial and reputation consequences. For example, a risk would be rated *very high* only if it could potentially threaten PACICC's viability – which we interpret as having a cash impact greater than $500 million in a single calendar year, combined with a potentially severe depletion of the P&C insurance industry's reputation capital. In determining likelihood ratings, PACICC first considers whether individual risks are continuous or "one-off" in nature before applying the appropriate rating criteria.

To be effective, ERM needs to be a continuous process, not a discrete initiative. Accordingly, PACICC's Board has adopted a regular reporting process that will see the Corporation's risk register and progress in mitigating priority risks reviewed at least annually. Periodic reviews will include the re-rating of risks and the addition of emerging new risks to the Corporation's register where appropriate. Evidence also suggests that it is a good practice to embed ERM in an organization's governance practices. For this reason, it is PACICC's policy that the "ownership" of enterprise risks ultimately rests with the Corporation's Board of Directors.

Existing and planned risk mitigation

Below is a summary of existing mitigation related to PACICC's priority risks, as well as additional mitigating actions being considered.

Risk 1 – Provincial insurance supervisory frameworks may not meet IAIS standards

Existing mitigation

PACICC has written to the provincial ministers responsible for insurance regulation to advocate that insurance solvency supervision be done by OSFI or by provinces that meet the IAIS standard. (OSFI standard meets IAIS requirements). In addition, PACICC has presented its position on this issue to the Senate Committee on Banking, Trade and Commerce; to the Public Utilities Board of Newfoundland and Labrador; and in dialogue with members of CCIR.

Additional mitigation

- Study insurance supervisory frameworks in Canada to identify divergences from the IAIS standards. Research is being conducted at the University of Calgary. Findings will be made public in 2008.
- Develop an education and awareness plan for the research findings.
- Consider including a factor for the quality of the insurance supervisory framework in future risk-based assessments that PACICC may levy.

Risk 2 – Regulation of insurance rates may contribute to insurer solvency problems

Existing mitigation

Insurance company financial health is closely scrutinized by rating agencies. PACICC also conducts its own financial analysis. Insurance supervisors are increasingly making use of risk-based supervision.

Additional mitigation

- Conduct research on the relationship between solvency and rate regulation (in progress).
- Review the feasibility of an additional levy for members whose financial data are not publicly available; and consider including a factor for rate regulation in future risk-based assessments that may be levied by PACICC (both under consideration).

Risk 3 – PACICC's operational preparedness for the failure of a larger, or multiple smaller member companies may need to be strengthened

Existing mitigation

PACICC has an established arrangement to provide call-centre capability and capacity. When an insurer insolvency occurs, this capacity can be supplemented by regional industry spokespersons and consumer response capability at the Insurance Bureau of Canada. PACICC maintains a proactive, healthy relationship with insurance regulators. The Corporation also conducts regular financial monitoring, internal financial modeling, and occasional failure simulations.

Additional mitigation

Develop a contingency plan that addresses PACICC's operational response to a larger member company failure, or to multiple small-company failures. The plan should address:

- Staffing of claims-management resources
- Availability of suitable work space
- Ability (and method) to fund additional resources
- Communications and media response.

Risk 4 – Insolvency costs could exceed available financial resources

Existing mitigation

PACICC's financial modeling helps analyze risk concentration, informing the Board and insurance supervisors of potential problems. PACICC also conducts member-insurer stress tests annually (where data are available). We encourage insurance superintendents to maintain best practice standards of capital adequacy and solvency supervision. The Corporation maintains adequate financial capacity and holds conservative, liquid, highly-rated investments in its Compensation Fund. PACICC actively monitors the business environment and the financial performance of its members. The Corporation maintains regular dialogue with members, regulators, liquidators and other stakeholders.

In the unlikely event of insolvency costs exceeding available assessment capacity in a single year, Section 2.8 of PACICC's Participation Agreement provides that the Corporation may discuss with the Superintendent appropriate modifications in payment arrangements. PACICC's Memorandum of Operation also specifies (VII A. 29. (1)) that the Compensation Fund can be used temporarily to fund all or any portion of a shortfall in available funding (for example, if an insolvent insurer's operations were confined to one or two provinces with limited assessment capacity).

Comment: PACICC strengthened its financial preparedness in 2005 (annual potential financial capacity was doubled).

Additional mitigation

Develop a list of possible responses to the occurrence of this risk. Options could include:

- Exploring the possibility of an emergency lending arrangement with government
- On a voluntary basis, bringing forward next year's assessment contributions from larger, financially-strong members
- Deferring payments to claimants.

Risk 5 – Outdated winding-up legislation may be precluding best practices and increasing insolvency costs

Existing mitigation

PACICC has identified reforms to the Federal *Winding-up and Restructuring Act* as its top priority for 2008. Research commissioned by PACICC on possible reforms and improvements to the Act has been completed. The research findings and recommendations have been discussed with stakeholders and are available to interested parties.

Additional mitigation

A strategy and work plan to address this risk was approved by the PACICC Board. The work plan goals focus on three key areas:

- Consensus building with other financial guarantee fund partners in Canada
- Government relations
- Implementation.

Risk 6 – Processes to protect confidential information held by PACICC may require strengthening

Existing mitigation

PACICC relies on its property/building management for office security measures. PACICC's confidentiality and privacy policy requires a signature commitment from all employees. Controls are also in place regarding electronic storage and use of confidential information.

Additional mitigation

- Develop and implement a data/document classification and retention policy for PACICC.
- Include "accidental disclosure of confidential information" in a media response plan to be prepared for Board members and staff.
- Conduct periodic reviews of building security.

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AUDITORS' REPORT

To the Members of the Property and Casualty Insurance Compensation Corporation

We have audited the statement of operations and changes in fund balances and financial position of the Property and Casualty Insurance Compensation Corporation as at December 31, 2007 and for the year then ended. This financial statement is the responsibility of the Corporation's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, this financial statement presents fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and changes in fund balances for the year then ended in accordance with Canadian generally accepted accounting principles
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KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
January 30, 2008

Year ended and as at December 31, 2007, with comparative figures for 2006
(In thousands of dollars)

	2007				2006			
	Operating Fund	Compensation Fund	Liquidation Funds	Total	Operating Fund	Compensation Fund	Liquidation Funds	Total
Fund balances, beginning of year	$1,698	$38,608	$9,410	$49,716	$1,669	$37,091	$6,428	$45,188
Member assessments	1,063	–	6,990	8,053	1,039	–	–	1,039
Investment income	78	1,552	634	2,264	61	1,519	486	2,066
Funding from liquidations and other	201	–	–	201	223	–	–	223
Liquidation dividends	–	–	2,718	2,718	–	–	4,425	4,425
	3,040	40,160	19,752	62,952	2,992	38,610	11,339	52,941
Claims and expenses	–	–	9,424	9,424	–	–	1,929	1,929
UPR reimbursements	–	–	–	–	–	–	–	–
Administrative expenses (note 7)	1,337	–	–	1,337	1,294	2	–	1,296
Refund to members (note 5)	–	–	5,240	5,240	–	–	–	–
Fund balances, end of year	**$1,703**	**$40,160**	**$5,088**	**$46,951**	$1,698	$38,608	$9,410	$49,716
Fund balances represented by:								
Cash and term deposits (note 6)	$73	$6,057	$13,239	$19,369	$73	$14,568	$10,822	$25,463
Bonds (note 6)	–	33,498	–	33,498	–	23,454	–	23,454
Accrued interest	1	605	48	654	1	586	37	624
Interfund receivable (payable)	1,677	–	(1,677)	–	1,613	–	(1,613)	–
Member assessment billed and receivable	17	–	20	37	2	–	–	2
Dividends receivable	–	–	–	–	–	–	1,461	1,461
Other receivables	62	–	–	62	95	–	–	95
	1,830	40,160	11,630	53,620	1,784	38,608	10,707	51,099
Accounts payable	127	–	6,194	6,321	86	–	569	655
Refund payable to members (note 5)	–	–	348	348	–	–	728	728
Fund balances, end of year	**$1,703**	**$40,160**	**$5,088**	**$46,951**	$1,698	$38,608	$9,410	$49,716

See accompanying notes to statement of operations and changes in fund balances and financial position.

On behalf of the Board:

Diane Brickner, *Director*

Earl McGill, *Director*

The Property and Casualty Insurance Compensation Corporation ("PACICC" or the "Corporation") was incorporated under the provisions of the *Canada Corporations Act* on February 17, 1988 and operates as a non-profit organization. The objective of PACICC is to be available to make payments to insured policyholders in the event that a property and casualty insurer that is a member becomes insolvent. The Corporation's members include all licensed property and casualty insurers (other than farm mutuals) and all government-owned property and casualty insurers (other than those writing automobile insurance only) carrying on business in a participating jurisdiction. For a full description of the protection provided, reference should be made to PACICC's By-Laws and Memorandum of Operation. The Corporation is funded by assessments levied on its members.

1. Basis of presentation

This financial statement is prepared on a restricted fund accounting basis, whereby the activities of the Operating Fund, the Compensation Fund and Liquidation Funds relating to the following insurance companies in liquidation are separately disclosed:

Advocate General Insurance Company ("Advocate")
Ontario General Insurance Company ("Ontario General")
Canadian Universal Insurance Company ("Canadian Universal")
Beothic General Insurance Company ("Beothic")
Hiland Insurance Company ("Hiland")
Maplex Insurance Company ("Maplex")
GISCO, La Compagnie d'Assurances ("GISCO")
Reliance Insurance Company ("Reliance")
Canadian Millers' Mutual Insurance Company ("Canadian Millers")
Markham General Insurance Company ("Markham General")

A statement of cash flows has not been presented as it is not considered to provide any additional meaningful information.

This financial statement does not reflect the assets, liabilities or operations of member companies in liquidation.

2. Significant accounting policies

This financial statement is prepared in accordance with Canadian generally accepted accounting principles. The preparation of this financial statement requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities as at the date of the financial statement. Actual results could differ from those estimates. The significant accounting policies are as follows:

(a) On January 1, 2007, the Corporation adopted The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, Financial Instruments – Recognition and Measurement ("Section 3855"), Handbook Section 3865, Hedges, and Handbook Section 1530, Comprehensive Income ("Section 1530").

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount. Under Section 3855, financial instruments must be classified into one of the following five categories: held for trading, held to maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are to be measured in the statement of financial position at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles.

Under adoption of these new standards, as at January 1, 2007 the Corporation classified all its investments in bonds and term deposits as held-to-maturity, which is measured at amortized cost. In the event that a bond has a decline in value that is considered other than temporary, a write-down to fair value would be recorded. Short-term instruments such as treasury bills are considered to be cash equivalents. Accounts receivable and financed premiums are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities, which are measured at amortized cost.

As a result, no transaction adjustments to the carrying values of the Corporation's assets and liabilities were required upon adoption of the new standards at January 1, 2007.

(b) Assessments for members in liquidation are based on management's best estimate of the ultimate cost of the liquidation and are recorded in full in the year approved by the Board of Directors. The estimated ultimate cost of each liquidation is based upon projected future cash flows from its assets, settlement of its claims and the estimated liquidation expenses. While these estimates are updated as the liquidation progresses, it is possible that changes in future conditions surrounding the estimate assumptions could require a material change in the recognized amount. The liquidation assessment amount that is billed to member companies is the lesser of the assessment limit as set out in the By-Laws of the Corporation and management's estimate of the funding requirements of liquidation.

(c) Accounts payable includes estimates made by management with respect to claims expected to be paid by the Corporation in relation to the liquidation. These estimates are recognized by management upon analysis of liquidators' estimates. Other amounts in payables include routine administrative expenses, which are recognized on an accrual basis.

(d) Member assessments are recognized as income when due.

(e) Liquidation dividends are recorded when notification of such is received from the liquidator. Refunds of previous member assessments are considered at this time. Any fund balance remaining will be refunded to members once the liquidator has been formally discharged by the court.

(f) In respect of amounts transferred between the funds, interfund interest is computed at current market rates for each fund.

(g) A portion of office and administrative expenses incurred in the Operating Fund is allocated to the respective Liquidation Funds of member companies in liquidation based on management's estimates of such costs attributable to these liquidations.

(h) Capital assets are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over a period of three years. As at December 31, 2007, capital assets acquired by the Corporation had been fully amortized.

(i) PACICC is registered as a non-profit organization and, accordingly, is currently exempt from income taxes, provided certain requirements of the *Income Tax Act* (Canada) are met.

(j) Future changes in accounting policy:
In December 2006, the CICA issued three new accounting standards: Accounting Changes, Handbook Section 1535, Capital Disclosures ("Section 1535"), Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862"), and Handbook Section 3863, Financial Instruments – Presentation ("Section 3863"). The following summarizes the future accounting changes that will be relevant to the Corporation's financial statements commencing January 1, 2008:

Section 1535 requires the following disclosures: (i) qualitative information about an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity manages as capital; (iii) whether the entity has complied with any externally imposed capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and Section 3863 replace Handbook Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements but not changing the existing presentation requirements for financial instruments. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Section 3862 requires qualitative and quantitative disclosure of: (i) exposures to risks arising from financial instruments, how they arose and the potential impact on the amount, timing and certainty of future cash flows; (ii) information about the risk management function and the reporting and measurement systems used; (iii) the entity's policies for hedging or mitigating risk and avoiding concentrations of risk; and (iv) the sensitivity to individual market risk factors together with the methodology for performing the analysis. Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

3. General and Designated Funds

The following summarizes the assessment activity in the general funds and the open insolvencies:

(a) Operating Fund

Administrative assessments are periodically levied against members to cover operating expenses not associated with a particular insolvency. For the year ended December 31, 2007, member administrative levies totalled $1,063,542 (2006 - $1,039,439).

(b) Compensation Fund

In 1997, the Board of Directors approved a Compensation Fund to provide for a permanent source of immediate funds in the event of any new insolvencies in the future. Members were assessed in 1998 and the amount was paid in equal annual instalments over the three-year period from 1998 to 2000.

(c) Markham General Fund

On July 24, 2002, a winding-up order was issued. PACICC member assessments for Markham General total $22,890,130 to date. The Board of Directors approved a $7 million general assessment in November 2006, to be levied during the first quarter of 2007. Actual assessments were $6,990,130. Member companies were advised of the assessment in November 2006 so they could account for it in their financial statements. Claims paid to date by the liquidator total $17,189,735 and liquidation dividends of $2,019,862 have been received to date. Provisions of $4,700,000 have been made for future claim payments (note 3(m)).

(d) Canadian Millers' Fund

On December 13, 2001, a winding-up order was issued. On January 2, 2002, the Board of Directors of PACICC approved and management levied an assessment of $3,000,000 and approved that withdrawals of up to $7,000,000 could be made from the Compensation Fund to pay unearned premiums and claims. Liquidation dividends of $2,736,287 have been received to date, of which $125,000 were recognized in 2007. Claims paid to date by the Corporation total $4,432,510.

(e) Reliance Fund

On December 3, 2001, a winding-up order was issued. This is a branch operation and the liquidator, with the approval of the court, continues to run the operation. It is not expected that there will be a shortfall in the liquidation requiring funding by PACICC. The agreement between PACICC and the liquidator indicates that all eligible payments made by the liquidator shall be deemed to be loaned by the liquidator to PACICC. The liquidator can demand repayment of this amount, including interest, and PACICC will be required to pay within 90 days. Management and the liquidator believe that there is a low likelihood that this contingency will result in any liability to PACICC. At December 31, 2007, the eligible claim payments made by the Corporation under this agreement amounted to $24,363,261 (note 3(m)).

(f) GISCO Fund

In 2000, the Board of Directors approved an assessment of $5,000,000 and billed members $3,500,000. The previously approved but unbilled assessment of $1,500,000 was determined not to be required and was reversed in 2004. Claims paid to date by the Corporation total $4,851,253. Liquidation dividends received to date total $4,500,000. Provisions of $250,000 have been made for future claim payments.

(g) Maplex Fund

The Board of Directors approved an assessment of $20,000,000 and billed members $10,000,000 in each of 1995 and 1996. Liquidation dividends of $16,144,921 have been received to date, of which $35,208 was received in 2007. The total claims paid to date by the Corporation amount to $23,464,563. A refund of $5,240,205 was declared in 2007, of which all but $75,148 has been distributed.

3. General and Designated Funds (continued)

(h) Hiland Fund

In 1994, the Board of Directors approved an assessment of $5,000,000. However, in accordance with PACICC By-Laws, $4,289,038 was billed in total to the members to the end of 2000. Liquidation dividends of $4,354,500 have been received to date. The previously approved but unbilled assessment of $710,962 was determined not to be required, and hence was reversed in 2000. Claims paid to date by the Corporation total $6,600,946.

(i) Beothic Fund

In 1993, an assessment in the amount of $2,500,000 was authorized by the Board of Directors. However, in accordance with PACICC By-Laws, members were billed $1,011,212 in that year. The $1,488,788 previously approved but unbilled assessment was determined not to be required, and hence was reversed in 1996. Claims paid to date by the Corporation total $2,309,511. Dividends of $1,949,517 have been received to date.

(j) Canadian Universal Fund

The Board of Directors approved and billed a $2,000,000 assessment in 1992. PACICC has paid several claims and the liquidator has reimbursed in full. Claims paid to date by the Corporation total $527,085. No further claims are expected by the liquidator.

(k) Ontario General Fund

In 1990, the Board of Directors approved an assessment of $1,000,000, which was billed to the members. Claims paid to date by the Corporation total $594,210. No further claims are expected by the liquidator.

(l) Advocate Fund

In 1989, the Board of Directors approved an assessment of $10,000,000, which was billed to the members. The progress of claims paid and liquidation dividends received resulted in a refund to members of $6,000,000 in 1995. All PACICC claims have been paid and final liquidation dividends of $3,520,934 were received in 1999. Claims paid by the Corporation total $44,037,846. The court approved a discharge of the liquidator for Advocate in June 2007. PACICC has no further obligation to the estate.

(m) Negative liquidation fund balance

Reliance was in a deficit position of $134,847 as at December 31, 2007. Management expects that future recovery of PACICC expenses from the estate will exceed this negative balance.

Markham General was in a deficit position of $334,430 as at December 31, 2007. Management expects that future dividends will exceed this negative balance.

For the year ended and as at December 31, 2007
(Tabular amounts in thousands of dollars)

4. Liquidation funds

The following table summarizes the operations and changes in fund balances and financial position of the designated funds:

	Liquidation dividend refund	Canadian Millers	Reliance	GISCO	Maplex	Hiland	Beothic	Canadian Universal	Ontario General	Advocate	Markham General	Total
Fund balances, beginning of year	$31	$300	($115)	$333	$5,594	$465	$151	$730	$207	$1,556	$158	$9,410
Assessments	–	–	–	–	–	–	–	–	–	–	6,990	6,990
Investment income	41	25	–	71	252	23	–	29	8	58	127	634
Liquidation dividends	–	125	–	2,000	35	–	–	–	–	–	558	2,718
	72	450	(115)	2,404	5,881	488	151	759	215	1,614	7,833	19,752
Claims paid	–	3	–	550	–	–	–	–	–	–	1,631	2,184
Accrued claims	–	–	–	250	(12)	–	–	–	–	–	4,700	4,938
Expenses	20	20	20	324	72	7	–	2	–	1	1,836	2,302
Dividends distributed	–	–	–	–	5,240	–	–	–	–	–	–	5,240
Fund balances, end of year	**$52**	**$427**	**($135)**	**$1,280**	**$581**	**$481**	**$151**	**$757**	**$215**	**$1,613**	**($334)**	**$5,088**
Fund balances represented by:												
Cash and term deposits	$448	$593	–	$2.253	$5,006	$641	$115	$811	$221	$889	$2,263	$13,239
Accrued interest	3	2	–	8	18	2	–	2	1	3	9	48
Interfund receivable (payable)	63	(168)	(135)	(409)	(4,275)	(44)	36	(56)	(7)	721	2,597	(1,677)
Assessment receivable	–	–	–	–	–	–	–	–	–	–	20	20
	514	427	(135)	1,851	749	599	151	757	215	1,613	4,889	11,630
Accounts payable	189	–	–	271	93	18	–	–	–	–	5,148	5,719
Accrued expenses – liquidator	–	–	–	300	–	100	–	–	–	–	75	475
Refund payable to members (note 5)	273	–	–	–	75	–	–	–	–	–	–	348
Fund balances, end of year (note 3 (m))	**$52**	**$427**	**($135)**	**$1,280**	**$581**	**$481**	**$151**	**$757**	**$215**	**$1,613**	**($334)**	**$5,088**

5. Refund to member companies

(a) On April 13, 2005, PACICC's Board of Directors authorized a refund from the proceeds of liquidation dividends to contributing members totalling $19,880,520. This amount represented 80% of the total accumulated dividends recovered by PACICC from the estates of the following insolvent insurers: Advocate; Ontario General; Canadian Universal; Beothic; Hiland; and Maplex.

As of December 31, 2007, PACICC had paid out $19,607,603 from the total amount authorized for distribution. Of the residual amount of $272,917, PACICC expects to pay out $219,594 when instructions are received from several member companies on how to allocate the funds; the remaining amount of $53,323 represents unclaimed refunds where PACICC is still in the process of determining ultimate ownership.

(b) On November 1, 2006, PACICC's Board of Directors authorized a refund from the proceeds of the Maplex liquidation. The amount expected to be refunded is $5,240,205. In 2007, $5,165,057 has been paid out. The final $75,148 will be distributed when instructions are received from several member companies on how to allocate the funds.

6. Investments

(a) Carrying amounts and fair value

	2007		2006	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Cash and term deposits	$19,369	$19,748	$25,463	$25,864
Bonds	33,498	33,848	23,454	23,393
Total	**$52,867**	**$53,596**	$48,917	$49,257

Bonds and term deposits have been designated as held-to-maturity. Fair values for invested assets are determined by reference to quoted market prices.

(b) Effective interest rates, interest rate risk and credit risk

(i) Cash and term deposits

These investments have an aggregate carrying amount of $19,369 (2006 - $25,463). Term deposits consist primarily of federal government short-term instruments with a maximum term to maturity of one year in an institutional pool of assets. Included in these amounts are certain term certificates amounting to $2,500 (2006 - $3,500) with maturity terms over a year. The effective interest rates on these securities were 3.20% to 5.10% for 2007 (2006 - 2.91% to 3.52%).

(ii) Bonds

	Remaining term to maturity			2007		2006	
	Within 1 year	**1 to 5 years**	**Over 5 years**	**Total carrying amount**	**Effective rates %**	Total carrying amount	Effective rates %
Government of Canada	$1,513	$4,839	–	$6,352	3.75% to 6.00%	$15,981	3.02% to 6.48%
Corporate	2,478	24,668	–	27,146	3.38% to 5.25%	$7,473	3.43% to 4.22%
	$3,991	**$29,507**		**$33,498**	**3.38% to 6.00%**	$23,454	3.02% to 6.48%

7. Administrative expenses

	2007	2006
Operating Fund:		
Salaries and benefits	$663	$574
Research and other consulting	183	222
Premises	107	112
Miscellaneous	63	61
Legal fees	50	74
Travel	54	59
Board of Directors' fees and expenses	65	56
Corporate secretary and accounting services	43	43
Furniture and equipment	30	34
Telephone and postage	27	24
Printing and supplies	35	19
Insurance	15	13
Bank charges	2	3
	$1,337	$1,294
Compensation Fund:		
Inter-fund investment expense	–	$2

8. Assessment capacity

PACICC has the ability to make a maximum potential annual general assessment of members of 1.5% (2006 - 1.5%) of covered premiums written, which amounted to approximately $508,000,000 in 2007 (2006 - $504,000,000). As a result of the loan arrangement with the liquidator of Reliance (note 3(e)), $25,000,000 (2006 - $25,000,000) of this assessment capacity is reserved to cover possible obligations of the Reliance liquidation.

9. Lease commitments

The Corporation renewed its lease for office premises for a period of five years ending December 31, 2012. The annual lease commitment is $58,716.

10. Contingent liabilities

The Corporation, from time to time, is named in actions for losses, damages and costs allegedly sustained by the plaintiffs. In connection with these actions, management believes that the Corporation will not incur any significant losses or expenses. The Corporation is also contingently liable under a loan agreement with the liquidator of a member company in liquidation (note 3(e)).

11. Fair value disclosure

The carrying amounts of financial assets and liabilities, other than invested assets, approximate their fair values due to the short-term nature of these financial instruments.

ACE INA Insurance
Affiliated FM Insurance Company
Alberta Motor Association
Insurance Company
Allianz Global Risks U. S. Insurance Company
Allstate Insurance Company
Allstate Insurance Company of Canada
Alpha, compagnie d'assurances Inc.
American Bankers Insurance Company
of Florida
American Home Assurance Company
American Road Insurance Company
Anglo Canada General Ins. Co.
Antigonish Farmers Mutual Insurance
Company
Arch Insurance Company
Ascentus Insurance Ltd.
Aspen Insurance U.K. Ltd.
Associated Electric & Gas Insurance Services
Assurance Mutuelle des Fabriques
de Montreal
Assurance Mutuelle des Fabriques de Quebec
Atlantic Insurance Company Ltd.
Avemco Insurance Company
Aviation and General Insurance Company
Aviva Insurance Company of Canada
Aviva International Insurance Ltd.
AXA Assurances Agricoles Inc.
AXA Assurances Inc.
AXA Insurance (Canada)
AXA Pacific Insurance Company

BCAA Insurance Corporation
Belair Insurance Company Inc.
Berkley Insurance Company
Boiler Inspection and Insurance Company
of Canada
British Aviation Insurance Company Limited
British Columbia Life & Casualty Company

CAA Insurance Company (Ontario)
Canadian Direct Insurance Inc.
Canadian Farm Insurance Corporation
Canadian Northern Shield Insurance
Company
Canadian Union Insurance Company
Canassurance compagnie d'assurances
générales Inc.
Capitale, compagnie d'assurance générale
Cardif-Assurances Risques Divers
Centennial Insurance Company
Certas Direct Insurance Company
Certas Home and Auto Insurance Company
Chubb Insurance Company of Canada
Clare Mutual Insurance Company
Coachman Insurance Company
Commerce and Industry Insurance
Company of Canada
Commonwealth Insurance Company
Constitution Insurance Company of Canada
Continental Casualty Company
Co-operators General Insurance Company
Coseco Insurance Company
CUMIS General Insurance Company

DaimlerChrysler Insurance Company
Desjardins General Insurance Inc.
Dominion of Canada General Insurance
Company

Eagle Star Insurance Company Ltd.
Ecclesiastical Insurance Office PLC
Echelon General Insurance Company
Economical Mutual Insurance Company
Electric Insurance Company
Elite Insurance Company
Employers Insurance Company of Wausau
Employers Reinsurance Corporation
Equitable compagnie d'assurances générales
Everest Insurance Company of Canada

Factory Mutual Insurance Company
FCT Insurance Company
Federal Insurance Company
Federated Insurance Company of Canada
Federation compagnie d'assurances du Canada
Fenchurch General Insurance Company

First American Insurance Co.
First North American Insurance Company
Fortress Insurance Company

GCAN Insurance Company
General Reinsurance Corporation
Germania Mutual Insurance Company
GMS Insurance Inc. (Group Medical Services)
Gold Circle Insurance Company
Gore Mutual Insurance Company
Grain Insurance and Guarantee Company
Great American Insurance Company
Great American Insurance Company of New York
Groupe Estrie-Richelieu, compagnie d'assurance
Guarantee Company of North America

Hanover Insurance Company
Hartford Fire Insurance Company Ltd.

ICAROM Public Limited Company
Industrial Alliance Pacific General Insurance Corporation
Industrielle Alliance compagnie d'assurances générales
ING Insurance Company of Canada
ING Novex Insurance Company of Canada
Innovassur, assurances générales Inc.
Innovative Insurance Corporation
Insurance Company of Prince Edward Island
Insurance Corporation of British Columbia

Jevco Insurance Company
Jewelers Mutual Insurance Company

Kings Mutual Insurance Company
Kingsway General Insurance Company

Legacy General Insurance Company
Liberty International Underwriters Canada
Lloyd’s Underwriters
Lombard General Insurance Company of Canada
Lombard Insurance Company
London & Midland General Insurance Company
Lumbermen’s Mutual Casualty Company

Markel Insurance Company of Canada
Max Canada Insurance Company
Mennonite Mutual Fire Insurance Company
Mennonite Mutual Insurance Company (Alberta) Ltd.
Metro General Insurance Corporation Ltd.
Millennium Insurance Corporation
Missisquoi Insurance Company
Mitsui Sumitomo Insurance Company Ltd.
Motors Insurance Corporation
Munich Reinsurance America Inc.
Mutual Fire Insurance Company of British Columbia
Mutuelle d'Eglise de l'Inter-Ouest

National Liability & Fire Insurance Company
NIPPONKOA Insurance Company Ltd.
Nordic Insurance Company of Canada
North American Specialty Insurance Company
North Waterloo Farmers Mutual Insurance Company

Old Republic Insurance Company of Canada
Omega General Insurance Corporation
Optimum Assurance Agricole Inc.
Optimum Insurance Company
Optimum Société d’assurance Inc.
Optimum West Insurance Company

PAFCO Insurance Company
Peace Hills General Insurance Company
Pearl Assurance Public Limited Company
Personal Insurance Company
Personnelle, assurances générales
Perth Insurance Company
Pictou County Farmers' Mutual Fire Insurance Company
Pilot Insurance Company

Pool Insurance Company
Portage La Prairie Mutual Insurance Company
Premier Insurance Company
Primmum Insurance Company
Prince Edward Island Mutual Insurance Company
Progressive Casualty Insurance Company
Promutuel Gaspésie-Les Iles Société mutuelle d'assurance générale
Promutuel Reassurance
Promutuel Temiscouata
Protective Insurance Company
Providence Washington Insurance Company

Quebec Assurance Company

RBC General Insurance Company
RBC Travel Insurance Company
RCA Indemnity Corporation
Red River Valley Mutual Insurance Company
Reliance Insurance Company
Royal & SunAlliance Insurance Company of Canada

S & Y Insurance Company
Safety National Casualty Corporation
Saskatchewan Motor Club
Saskatchewan Mutual Insurance Company
Scotia General Insurance Company
Scottish & York Insurance Company Ltd.
Seaton Insurance Company
Securican General Insurance
Security Insurance Company of Hartford
Security National Insurance Company
Sentry Insurance, A Mutual Company
SGI Canada
SGI Canada Insurance Services Ltd.
Sompo Japan Insurance Inc.
Sovereign General Insurance Company
SSQ, Societe d'assurances générales Inc.
State Farm Fire and Casualty Company
State Farm Mutual Automobile Insurance Company
St. Paul Fire & Marine Insurance Company

T.H.E. Insurance Company Ltd.
TD Direct Insurance Company
TD General Insurance Company
TD Home and Auto Insurance Company
Temple Insurance Company
TIG Insurance Company
Tokio Marine & Nichido Fire Insurance Company
Traders General Insurance Company
Trafalgar Insurance Company of Canada
Trans Global Insurance Company
Travelers Guarantee Company of Canada
Trisura Guarantee Insurance Company
TTC Insurance Company Limited

UAP-New Rotterdam Insurance Company N.V.
Unifund Assurance Company
Union Canadienne, compagnie d'assurances
Unique, compagnie d'assurances générales
United General Insurance Corporation
Utica Mutual Insurance Company

Virginia Surety Company Inc.

Waterloo Insurance Company
Wawanesa Mutual Insurance Company
Western Assurance Company
Westland Insurance Company

XL Insurance Company Ltd.
XL Reinsurance America Inc.

York Fire and Casualty Insurance Company

Zenith Insurance Company
Zurich Insurance Company

PACICC board of directors

2007 Board

Diane Brickner
Chair
President,
Peace Hills General Insurance Company

Lea Algar
Chair,
General Insurance OmbudService

George Cooke
President and CEO,
The Dominion of Canada General Insurance Company

Paul Kovacs
President and CEO,
PACICC

Earl McGill
Former Superintendent of Insurance for Manitoba (retired)

Kevin McNeil
President and CEO,
Gore Mutual Insurance Company

Lawrie Savage
President,
Lawrie Savage & Associates Inc.

Robin Spencer
President and CEO,
Aviva Canada Inc.

Alain Thibault
President and CEO,
TD Meloche Monnex Group

David Woolley
President,
Atlantic Insurance Company Ltd.

Board Committees

Audit

Earl McGill (Chair)
Lea Algar
Diane Brickner
Kevin McNeil
Robin Spencer

Governance and Human Resources

Diane Brickner (Chair)
George Cooke
Lawrie Savage
Alain Thibault
David Woolley

PACICC staff and contact information

Paul Kovacs
President and Chief Executive Officer

Full-time staff

Jim Harries
Vice President, Operations

Darrell Leadbetter
Manager, Research

Tracy Waddington
Manager, Administration

Contract and part-time staff

John Connor
Manager, Claims

Randy Bundus
Vice President, Secretary and Counsel

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