PACICC

Property and Casualty Insurance Compensation Corporation

20 1988-2008

Protecting Canada's home, car and business insurance customers for two decades

Annual Report 2008

PACICC fast facts for 2008

Insurance company liquidations supported by the Property and Casualty Insurance Compensation Corporation (PACICC) at year-end 2008 were mostly at a mature stage. Only 172 known claims remain to be settled. During 2008, payments totaling $1,570,435 were made to or on behalf of 60 policyholders. Since its establishment in 1988, PACICC has paid out $105 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 2008

- Establishing reform of the *Winding-Up and Restructuring Act* (WURA) on the national policy agenda. Prospective changes were identified that would improve the operating environment for PACICC, our members, liquidators and regulators in managing insurance company insolvencies
- Making submissions to the Standing Senate Committee on Banking, Trade and Commerce and to the Federal Department of Finance, in partnership with Assuris, outlining key reforms to the WURA
- Completing and distributing to members and other stakeholders a case study of the failure of Maplex General Insurance Company, the second installment in PACICC's *Why insurers fail* series of research papers
- Enhancing and updating PACICC's Board-approved investment policy statement as part of the new investment management arrangements put in place for the Compensation Fund

Contents

PACICC successfully completed its 20th year of operations in 2008. I am pleased that no further insurance insolvencies occurred during 2008 among our more than 200 members. One indicator of PACICC's success over the past two decades is the marked reduction in expressions of public and media concern about our industry's capacity to pay legitimate claims. In part, this issue was addressed by PACICC's timely response to the winding up of a dozen member insurers over our first twenty years.

2008 was also a year of transition with our industry entering a period where the risk of insolvency is on the rise once again. Several years of healthy industry earnings and capital growth came to an abrupt end last year with a sharp increase in claims costs and significant investment losses. In the fall of 2008 the International Monetary Fund described the credit crisis as "the most dangerous shock to the financial sector since the 1930s." In addition, throughout 2008 PACICC has been expressing its concern about the implications of the downturn in the insurance cycle.

We have been proactive in encouraging member insurers, solvency supervisors and other stakeholders to be bold in embracing their responsibilities for maintaining the financial health of our industry.

The combination of the international credit crisis and, more importantly, the downturn in the insurance cycle resulted in the emergence of challenging conditions for member insurance companies. In these extraordinary times, PACICC has been reviewing and actively addressing opportunities to reduce any material financial risk to our capacity to respond to future member insolvencies. Moreover, we have been proactive in encouraging member insurers, solvency supervisors and other stakeholders to be bold in embracing their responsibilities for maintaining the financial health of our industry.

Preparedness has been the top priority for PACICC, and it will remain so. Our investments are conservative and our liquidity position is strong. Each of the priority issues we have tackled in recent years has strengthened the Corporation's preparedness – including more effective corporate governance, increased financial capacity, improvements in coverage and benefits, and better understanding and management of our enterprise risks. PACICC is prepared to respond when the need next arises.

Improving insurance company liquidation practices

Over the past year, PACICC broadened the scope of its preparedness work to include championing reform to the outdated legislation governing the liquidation of insurance companies and banks in Canada – the *Federal Winding-Up and Restructuring Act*. We were successful in getting agreement among key decision makers in the Department of Finance and members of the Senate Banking, Trade and Commerce Committee on the need for reforms to the Act. While the process will take time, we are confident that PACICC's leadership on this issue, in partnership with Assuris, has begun to build momentum for reform of Canada's winding-up legislation.

As it stands right now, the *Winding-Up and Restructuring Act* is simply not able to address the challenge and risks associated with the insolvency of a financial conglomerate.

Several of the reforms proposed by PACICC were shaped by our administration and financial support of a dozen P&C insurance company liquidations over the last two decades. We are confident that the changes recommended would bring greater efficiency to the insurance company liquidation process and more certainty for stakeholders.

For example, because several liquidations required substantial effort to establish that unearned premium trust funds are assets of the insolvent insurer's estate, this should be clarified by the winding-up legislation. It would also improve the liquidation process if Court-appointed Liquidators were given additional powers to obtain the essential information records of an insolvent insurer held by providers of outsourced services. Similarly, providing additional protection for Liquidators following their discharge by the Court could help to shorten the time required to wind-up an insolvent insurance company.

When the Act was created, financial guarantee funds like PACICC did not exist, so our role in liquidations was not foreseen. But guarantee funds now are usually the largest creditors in the wind-up of insolvent financial institutions. Accordingly, the legislation should entitle guarantee funds to be inspectors in liquidations that they finance. And to help the legislation keep pace with rapid changes in the financial industry, PACICC recommends that it should be subject in future to the same type of regular, periodic review as Canada's broader bankruptcy and insolvency legislation.

Many of the reforms proposed by PACICC would be relatively easy for the Federal government to enact. Much more challenging – but equally important and also recommended by PACICC and its counterparts in the life insurance and deposit-taking sectors – will be changes to ensure that Canada's framework of insolvency legislation is able to respond effectively to the failure of a financial conglomerate doing business in this country. As it stands right now, the *Winding-Up and Restructuring Act* is simply not able to address the challenge and risks associated with the insolvency of a financial conglomerate.

Public disclosure of insurance company financial information

PACICC continues to advocate improved public disclosure of insurance company financial information. In particular public information reporting on the financial health of provincially-supervised insurance companies falls short of the standard set by OSFI for federally-supervised insurers in terms of both timeliness and the extent of information available. The case for improved financial disclosure is strong: the International Association of Insurance Supervisors recommends disclosure and transparency as an important means of informing insurance consumers; and the evolving body of standards known as IFRS (International Financial Reporting Standards) that is due to be implemented in 2011 clearly points toward better disclosure.

When PACICC published its own research last year on the case history of Maplex, a failed member insurer, it was evident that poor financial disclosure played a role in the company's demise. Poor disclosure was a factor that delayed the Ontario Superintendent's decision to wind-up the company which, in turn, increased the cost for PACICC member insurers to fund the liquidation.

Your Board of Directors

Membership of PACICC's Board of Directors was unchanged during 2008, and similarly no change is anticipated for 2009. However, I will complete my two-year term as Board Chair in April 2009, at which time Robin Spencer of Aviva Canada has agreed to stand for election as the next Chair. I am confident that PACICC will continue to be well-governed and well-prepared under his capable leadership, backed by Paul Kovacs and his management team. It has been an honour to serve as PACICC Chair. As our industry works through these challenging times I believe that our Corporation has never been better prepared to respond to the winding up of a member insurer.

The next 12 to 18 months will be challenging for most PACICC member insurers. There is an elevated risk of financial distress for some companies due to the confluence of deteriorating underwriting results, the collapse of international capital markets, and political/legal uncertainty. PACICC is ready to respond if the need arises, as we have been working actively over the past five years to ensure our preparedness.

History shows that previous cycles over the past thirty-five years for the P&C insurance industry have concluded with three to five insurance companies forced into insolvency. In the current situation pessimists are concerned that the cycle may be even worse than the past due to the marked recent deterioration in claims incurred, the absence of premium growth, adverse court rulings and the remarkable collapse in financial markets. In contrast, optimists point to the strong capital accumulation by insurers over the past few years, active industry discussion about underwriting discipline, conservative investment strategy and strong solvency supervision provided by OSFI. Time will tell when our industry next experiences an insolvency, but the risks for the next year or two will be higher than they were over the past few years.

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PACICC's strategic priorities

Serving as Canada's P&C insurance industry guarantee fund, PACICC remains vigilant regarding the need for early identification of priority industry issues and appropriate actions to address them.

For the period 2009 to 2011, PACICC's strategic plan focuses on three key priorities. In 2009, we will work to strengthen incentives for insurer financial health. This will be achieved through several initiatives, including: participating in OSFI's review of reinsurance issues where we will seek to update the current model insolvency clause; championing actions that mitigate possible contagion effects from an insurer insolvency; and launching a discussion about the factors contributing to price inadequacy, the primary cause of insurer solvency, including the solvency risks associated with rate regulation. In 2010, our focus will turn to strengthening provincial solvency supervision, comparing the solvency supervisory systems for federal and provincially-licensed insurers in Canada to the standards recommended by the International Association of Insurance Supervisors. In 2011, our goal is to enhance PACICC's operational preparedness with a comprehensive review of the Corporation's preparedness to respond operationally to a range of possible insurer failure scenarios.

Strengthening incentives for insurer financial health

Our work this year to strengthen incentives for the financial health of member insurers has several elements including reinsurance, contagion, price inadequacy and goverance.

PACICC will be an active participant in the review of the Canadian reinsurance market being conducted by OSFI. Reinsurance receivables are typically the largest asset remaining when a PACICC member fails, and recovery is always challenging for an insurer in liquidation. The Reinsurance Research Council has long provided leadership through the provision of model wording for an insolvency clause and we believe that registered reinsurers consistently include this model wording. We remain concerned, however, that solvency regulators should ensure use of this feature for all reinsurance arrangements. Also, we invite the Council to review its current wording with stakeholders given alternative wordings that have emerged in some other insurance markets. PACICC also welcomes the important discussion OSFI has launched to address a broad range of other important reinsurance issues, and we look forward to contributing our views from the perspective of reducing the risk of insolvency, and supporting the fair and timely resolution of failures when they arise.

Our work this year to strengthen incentives for the financial health of member insurers has several elements including reinsurance, contagion, price inadequacy and goverance.

PACICC-supported research has been completed to identify means of reducing the risk that the failure of an insurer may cause financial distress or even insolvency for other member insurers. This issue of contagion has been addressed in many markets in the United States with premium tax offsets. PACICC will share its research on this issue with provincial Finance officials and other interested stakeholders to propose that financial assessments made by PACICC when a member insurer fails should be offset by reduced provincial premium tax charges. Subsequent recoveries from the estate of a failed insurer made by PACICC on behalf of member insurers would be offered to the provinces as a deferred payment of premium taxed.

Our 2007 study of the 35 Canadian P&C insurance failures that have occurred over the past 50 years clearly identified inadequate pricing as the primary contributing factor – but why are pricing decisions sometimes so poor that insurance companies have failed? What are the factors that have contributed to catastrophic price inadequacy and insolvency? This will be the subject of PACICC's 2009 contribution to our publication series *Why insurers fail*. A variety of factors will be explored including the solvency implications of rate regulation.

Work will also be completed on a corporate governance database for Canadian P&C insurers. PACICC will use these data to better understand the relationship between corporate governance and the risk of financial distress among member companies.

Strengthening solvency supervision

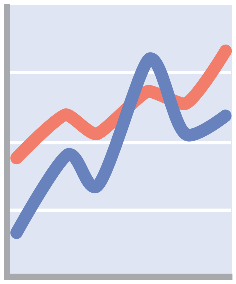
In 2010, we will seek to compare the solvency supervisory systems for federal and provincially licensed insurers in Canada to the International Association of Insurance Supervisors (IAIS) *Common Structure for the Assessment of Insurer Solvency*. This will enable PACICC to identify possible legislative reforms and additional resources needed to bring provincial solvency supervisory practices up to the standards proposed by the IAIS and those of the Office of the Superintendent of Financial Institutions. Specific recommendations to enhance solvency supervision will be prepared for possible inclusion in the provincial *Insurance Acts*. PACICC will also develop model provincial solvency supervisory legislation based on best international practices, ideally prepared in partnership with one or more supervisory authorities.

Strengthening operational preparedness

In 2011, we plan to complete a comprehensive review of PACICC's preparedness to respond operationally to a range of possible insurer failure scenarios, seeking to document why we are confident in our current capacity to respond. We will benchmark our practices against the best practices of other guarantee funds as part of this operational preparedness study and resolve any material gaps in operational preparedness that are identified. PACICC's Enterprise Risk Management priorities support strengthened operational preparedness. The Corporation has adequate financial resources to respond to the failure of a larger member insurer, or to a series of smaller insurer failures. As well, it has a contingency plan in place to secure adequate human resources to handle the claims management demands that could arise from the same type of insurer failure scenarios. Presently our greatest identified deficiency is the absence of documented practices, an issue we are actively addressing.

PACICC's continuing focus on enhanced preparedness has helped to ensure that the organization is well positioned to protect the interests of Canadian insurance policyholders, should the need arise. PACICC remains committed to protecting eligible policyholders, minimizing insolvency costs and maintaining consumer confidence in the P&C insurance industry.

In closing, I want to extend personal thanks and appreciation to Diane Brickner and all of the other members of the Corporation's Board of Directors. It is rewarding to work with such a committed and knowledgeable Board. Thanks also to my PACICC colleagues for their continuing high-quality work and passion to serve insurance consumers. As we enter a third decade of service, we are confident that the Corporation is focused on issues that matter most to consumers, member insurers and other stakeholders. PACICC is well-positioned for continuing success.

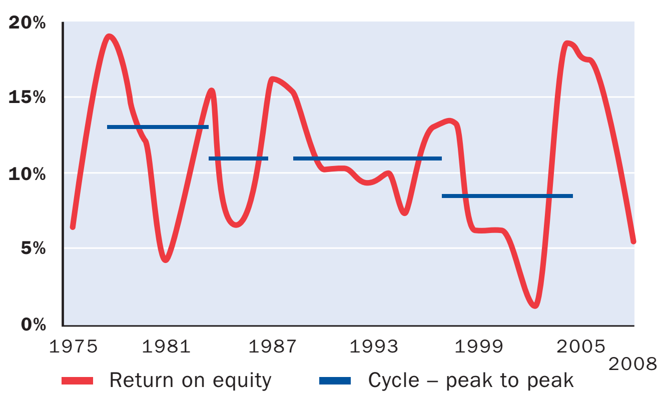


The P&C insurance industry is subject to a well-established cycle. Every seven years or so it passes through a period of strength, weakness and returns to strength. A similar pattern has been recorded in most major insurance markets around the world. The Canadian market is approaching the weakest point in the current cycle and the period with the highest insolvency risk.

It is wrong to assume that the performance of the industry is preordained, as there is considerable scope to influence the cycle. Moreover there are unique elements evident in each cycle. It is equally dangerous, however, to ignore the lessons that we can learn from history. The current situation has many elements that we have experienced before so the consequences are not necessarily unpredictable.

Over the past fifty years the P&C insurance industry in Canada has passed through the insurance cycle seven times. The Canadian insurance cycle lasts seven years, on average. Also over the past fifty years 35 P&C insurers have failed in Canada. Five insurers fail each cycle, on average, with the majority (two-thirds) becoming insolvent just after the weakest point in the cycle. Six P&C insurers failed in Canada around the weakest point in the last cycle seven or eight years ago, and most of the signs of rising risk of failure are evident again.

Canadian P&C insurance cycle



Source : PACICC, with data from MSA and IBC

Inadequate pricing, the primary factor contributing to past failures in Canada, is most evident at the weakest point in the cycle. Similarly, the failure of newer insurers is also highly correlated with weakness in the insurance cycle. In contrast, there is little or no correlation to the insurance cycle for some of the other, but less common, causes of failure, such as failure of a parent, or overwhelming claims costs due to a natural catastrophe.

The Canadian P&C insurance industry is near the low point in the current cycle. Claims incurred grew significantly in 2008 with premium growth failing to keep pace. This adversely affected industry earnings and capital growth.

Compounding the risks associated with the underwriting cycle are the challenges presented by the global financial crisis. For the financial sector, this past year will be remembered as one of worst since the Great Depression. Public confidence in the financial sector deteriorated around the world during 2008. Insolvency concerns have been greatest for the banking and financial management industries. To a lesser extent, confidence also eroded in the insurance industry.

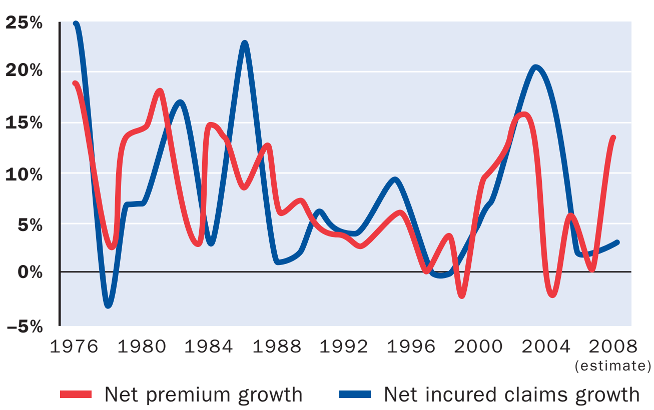
For Canadian P&C insurers, the international financial crisis had limited direct financial or solvency implications. Nevertheless, while Canadian insurers were not directly exposed to the subprime investments that imploded the balance sheets of more than two dozen large international financial institutions, the shockwaves of those failures did damage the capital base for many insurance companies as stock markets collapsed and bond yields fell.

The convergence of the higher-risk period of the insurance cycle and the financial crisis further heightens insolvency risk in Canada. Rising claims costs and the collateral impacts arising from developments in financial markets indicate that 2009 could be a turbulent year for the P&C insurance industry.

Underwriting environment

PACICC's business, the involuntary market exit of insurers, is closely and inversely linked to profitability and the insurance cycle. Periods of poor profitability increase the risk of insolvency, 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. In the last period of weak profitability, between 2000 and 2003, six P&C insurers exited the market involuntarily, affecting 100,000 policyholders, with PACICC and its members providing liquidators with more than $80 million to pay claims.

P&C insurance premium and claims growth



Source: PACICC, with data from MSA Research

Underwriting results deteriorated significantly in 2008, particularly in the auto insurance segment, which represents nearly half of the industry's premium volume. Of particular concern is the Ontario automobile insurance market, where the 2008 loss ratio for the accident benefits coverage exceeded 100% for the first time since the 2001 to 2003 period. Loss ratios in third-party liability increased to their highest rate since 2003, but remain lower than those found at the depths of the previous insurance cycle. The Alberta court decision on the minor injury cap early in 2008 increased uncertainty in the Alberta auto product and if the appeal on a similar challenge in Atlantic Canada is successful, there could be adverse implications for insurer financial health with the addition of liabilities that were not priced or reserved for.

In other lines of business, commercial and personal property loss ratios increased sharply during 2008 as property insurance claims costs were again influenced by severe weather. Sixteen named storms brought property damage to the Atlantic provinces. Seasonal storms and hail in the Prairies adversely affected property lines in Western Canada.

Fortunately, the experience in commercial liability and other PACICC protected lines remained strong.

Overall, rising claims costs in the automobile and property segments have put further pressure on industry profitability. Underwriting income fell dramatically in 2008 compared with the previous year, as the number of insurers experiencing an underwriting loss increased to 47%, or almost half of PACICC members.

The credit crisis

The global economic and financial outlook deteriorated sharply during the past year. In 2008, the financial crisis claimed more than two dozen large international financial conglomerates with assets of $23.5 trillion ($CDN). The crisis began in mid-2007 as subprime mortgage defaults began to increase, causing a loss of confidence in the value of securitized products holding those mortgages. The loss of confidence in short-term commercial paper sparked a liquidity crisis for many financial institutions, particularly in mortgage lending. In 2008 the subprime crisis migrated from the mortgage lending business to the investment banks and other financial institutions.

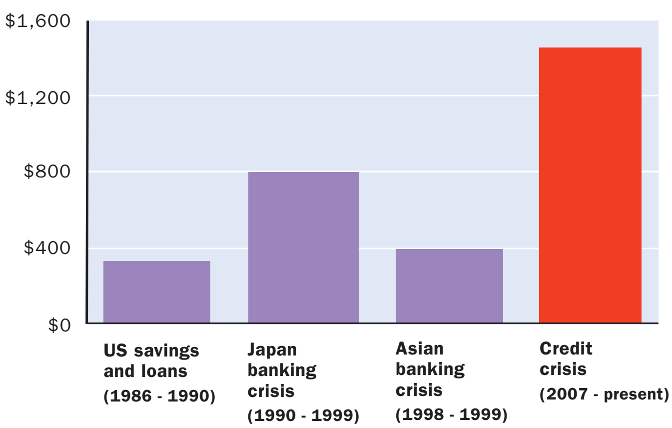
As some financial institutions started to experience significant write-downs of subprime-related investments or as financial distress and counterparty risk increased, confidence between institutions declined – reflected by the sharp rise in the interbank lending rate – and created further liquidity challenges. The failure of Lehman Brothers in September 2008 triggered the failure or rapid weakening of many other institutions, prompting unprecedented action by governments to bailout, nationalize or otherwise provide and guarantee support for financial institutions. By October the loss of confidence had spread and stock markets worldwide had fallen dramatically, with the S&P TSX Composite Index falling 35%.

By year end, more than two dozen large international financial institutions and conglomerates had failed or were relying on government support. Nine of these institutions maintained operations in Canada with assets of approximately $81.3 billion, representing 0.4% of the total assets of these troubled institutions. Typically, the Canadian operations of these financial institutions, under the purview of Canadian solvency supervision, were healthy.

Canadian P&C insurers themselves had little direct exposure to subprime instruments, as most insurer assets are invested in government and the highest quality corporate bonds. As P&C insurers largely held conservative and high quality assets both before and throughout the crisis, they were somewhat shielded from the financial market turmoil of 2008. However, they have not been fully immune to the crisis. All insurers had modest adverse exposure as yields on government bonds declined, and those few individual insurers with larger equities holdings experienced losses as stock markets fell.

Comparison of financial crisis

$ USD billion in mark-to-market losses and write-downs



Source: PACICC, with data from IMF

Generally however, as the result of a conservative investment strategy, effective risk management and a strong solvency supervisory system, industry solvency has been resilient to the effects of the financial crisis. No Canadian P&C insurer became financially distressed in 2008 as a result of either the subprime-related investments or the turmoil of the financial markets.

Where the financial crisis most materially affects the P&C industry is through contagion from an affiliated financial institution. Many P&C insurance companies are members of a financial group or conglomerate encompassing financial institutions outside of the P&C industry. While the Canadian P&C insurer within the group may not be directly exposed to subprime-related losses, some member insurers have affiliates or parent companies with exposure.

Capital and liquidity

Public confidence in insurance companies is built on the expectation that insurance contracts will be fulfilled and eligible claims paid. Capital adequacy is a foundation of this confidence, allowing insurers to pay claims and absorb unexpected losses. The financial crisis clearly identified confidence – and capital as a core determinant of the level of confidence – as a critical aspect of a well-functioning financial industry.

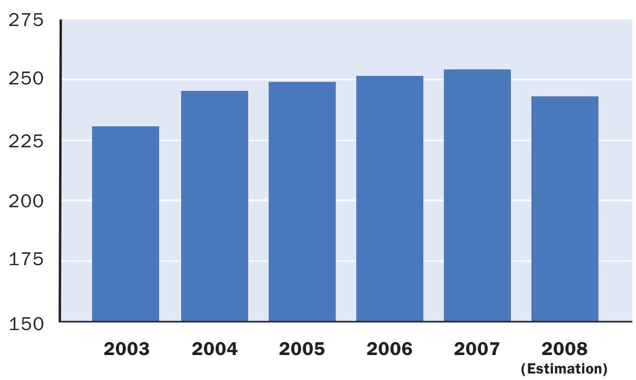
While the Canadian P&C insurance industry does not hold subprime-related assets, the effects of the financial crisis nonetheless expanded to impact other asset classes, resulting in some capital losses and reduced investment income. Canadian P&C insurers typically have conservative investment portfolios, consisting largely of government and the highest quality corporate bonds. However yields are low and declining on these bonds. The industry's exposure to equity markets and higher-risk debt instruments is limited. Overall during 2008, Canadian P&C insurers experienced fewer investment losses and less erosion of capital than insurers in the United States and Europe.

Retained earnings are the primary source of capital for the Canadian P&C insurance industry. Other sources of capital include support from foreign parent companies, and a handful of insurers have access to capital markets. The international scope of the crisis in financial markets has reduced the prospect of accessing capital markets for Canadian insurers, as the downturn has affected the willingness of both parent company and capital market capacity to support the Canadian P&C insurance market.

Healthy returns and the stabilization of claims costs during the period between 2003 and 2007 allowed the P&C industry to rebuild its capital base after the last period of weak results at the beginning of the decade. However, despite a generally healthy position, the P&C industry is diverse and the risks faced by insurers vary depending on the lines of business they write, the type of clients and the jurisdiction from which their business originates. In 2008, increasing claims cost trends, weaker investment results and fair value adjustments began to reduce the level of capital in the industry. Two dozen insurers had to draw on their capital base to pay claims. For the first time since 2003, total capital in the industry fell. Nevertheless, while the industry composite minimum capital test ratio fell in 2008, it remains well above the supervisory target of 150. There are important variations in risk among individual insurers, but the industry as a whole is well capitalized.

Liquidity, the spark of the international financial crisis, has become an important determinant of confidence in a financial institution. This has largely been a bank and investment management story as there are fundamental differences between P&C insurers and other financial institutions with regard to the structure of their balance sheets. Banks, life insurance companies and investment management funds are primarily managers of assets. Uniquely among financial sector industries, P&C insurers are primarily liability managers. This focus on the liability side of the balance sheet makes the risk profile of P&C insurers substantively different than other financial institutions. As a result, Canadian and international P&C insurance markets were not directly confronted by the international financial crisis as significanly as the other segments of the financial sector.

Industry composite MCT ratio



Source: PACICC, with data from the Bank of Canada

Despite their comparative resilience to the financial crisis, Canada's insurers face a weaker capital environment in 2009, characterized by declining investment yields and deteriorating underwriting results.

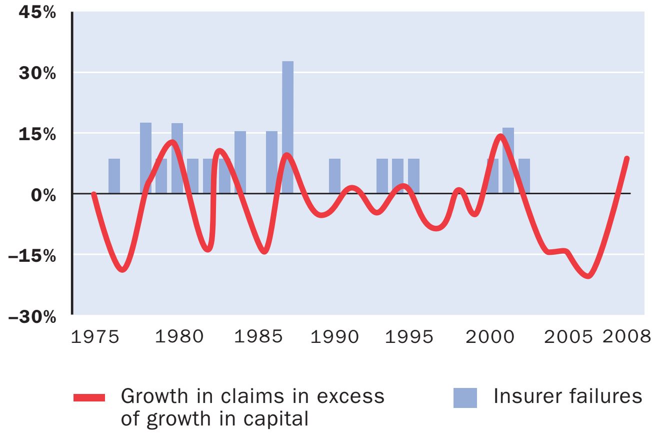
Looking ahead

From a solvency perspective the outlook for the P&C insurance industry for 2009 and 2010 is much weaker, and subject to greater uncertainty than the healthy performance recorded over the past few years. The industry is entering the point in the insurance cycle where history signals an increased risk of insolvency and financial distress. The number of PACICC member insurers reporting underwriting losses has increased significantly, while turmoil in financial markets adds to the risk of financial difficulty. Deteriorating underwriting results, contagion from parents or affiliates in other financial industries, volatility in financial markets, material risk from political/legislative uncertainty, and the threat of severe weather events represent some of the immediate risks to insurer solvency.

The good news is that the industry, and most PACICC member insurers, significantly built up their capital over the past few years of healthy earnings. There are important variations in capital strength between companies. Also there are important differences in degree of exposure to the international financial crisis evident within the industry. Nevertheless, industry-wide measures show that Canada's P&C insurers entered into the current downturn from a position of capital strength and with a clear strategy to preserve capital when confronted by financial market turmoil.

Solvency risk: capital and involuntary exit

Growth in claims in excess of growth in capital



Source: PACICC, with data from MSA Research

Risks related to underwriting are the main cause of past insolvencies in the P&C insurance industry. In particular, catastrophic rate inadequacy is the leading cause of failure, and the factor that often is most evident during the weakest point in the insurance cycle. Widespread discussion about the underwriting discipline is encouraging, as is debate about proactively addressing specific elements of current price adequacy – for example, resolving deficiencies in rating tools and actively underwriting exposure to water damage. Also of concern is the challenge of ensuring adequate rates for regulated coverages like auto insurance, and addressing political/legal uncertainty like the adverse court ruling in Alberta.

For more than 30 years there has been a strong correlation between periods when industry claims costs grew faster than capital – like that currently under way in Canada – and increasing risk of insurer insolvency. The deteriorating underwriting environment, particularly in Ontario auto insurance, combined with the deterioration in financial markets, has again taken our industry into a period where claims costs are outstripping capital growth and the risk of insolvency is rising.

The current P&C insurance cycle coincides with the serious downturn in the global economy, bringing additional challenges for insurers. As the economic downturn in the United States spills over into Canada, opportunities for insurers to realize premium growth are more limited than in previous troughs of the insurance cycle as policyholders become more resistant to price increases. In this environment, downward pressure on premiums from the demand side – particularly in the rate-regulated auto insurance product – combined with rising claims costs may place increased stress on the solvency of member insurers.

As a key aspect of its corporate governance, PACICC has had a Board-approved Enterprise Risk Management (ERM) process and plan in place since 2007. The process is continuous, integrated with the Corporation's strategic plan priorities, and regularly reviewed at the Board level. To strengthen the regular review of enterprise risks, the Board has delegated this continuing responsibility to the Audit Committee. As a result, ERM is now on the agenda each time the Audit Committee meets.

PACICC groups its enterprise risks into four categories: regulatory risks, financial risks, operational risks and reputation risks. The accompanying table gives a broad description of the four risk categories; the number of total risks and priority risks in each category; and the Corporation's comments on risk dynamics during 2008 and our judgment of likely risk trends through 2009.

PACICC considers the trend for its regulatory and financial risks to be increasing in 2009, and to be stable for operational and reputation risks. We measure the risk trend by taking account of the rating of both the potential consequences and the likelihood for each individual risk. We seek to assess whether those ratings have recently changed, or are likely to change.

As illustrated in the accompanying chart, PACICC's greatest "risk intensity" occurs in the areas of regulatory and financial risks – where the potential is greater for external factors and events to affect the Corporation adversely. In response, the Board of Directors has identified risks in these two categories as the prime focus of PACICC's risk-mitigation efforts (representing 4 of 6 high-priority risks).

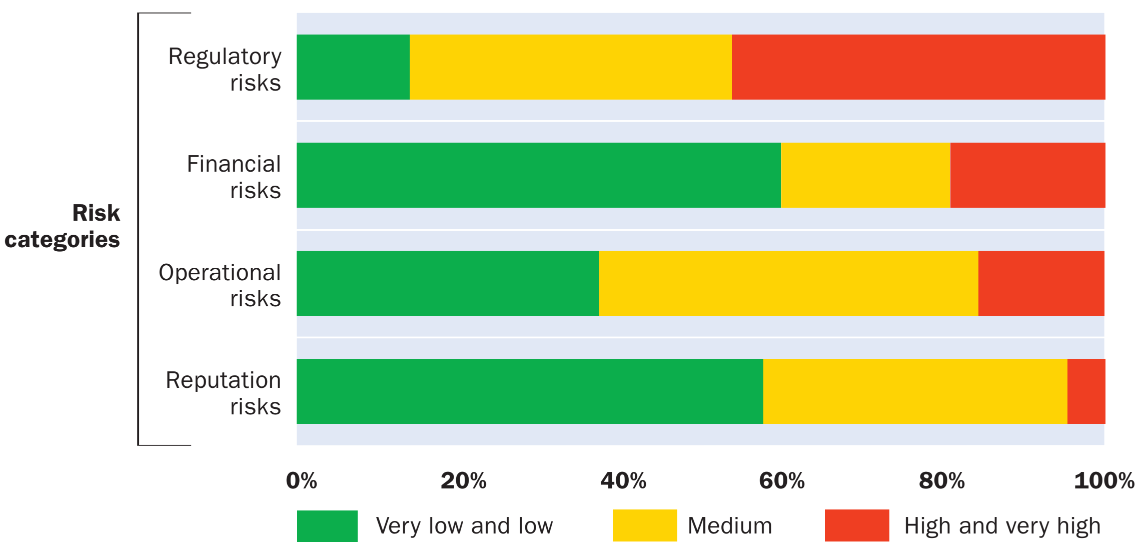
The colour legend used in the chart reflects both the potential consequences and likelihood of a risk occurring. The implications of the rating scheme are as follows:

- risks rated "very low & low" (green) do not present major concerns and will be managed by routine controls, procedures and monitoring
- risks rated "medium" (yellow) represent potential concerns and require active management control and assignment of responsibility
- risks rated "high & very high" (red) require detailed action plans including research, planning and decision making by senior management and the Board of Directors. PACICC has identified six enterprise risks that are currently rated high or very high – each of which is being managed through a Board-approved action plan.

Interested stakeholders can view PACICC's full register of 35 risks on the Corporation's website at www.pacicc.ca.

Risk category and description	Number of risks	Risk dynamics during 2008 and likely risk trend for 2009
Regulatory risks The risk that insurance regulatory practices in Canada could constrain a timely and effective response by PACICC to a member company failure, or increase the cost of responding	***7 risks in total*** 3 high priority	There were no significant changes in P&C insurance solvency or rate regulation in Canada during 2008. However, monitoring practices and information requests were enhanced. While no risks were re-rated in this category in 2008, we believe that supervisors will be challenged to maintain a proactive stance with respect to solvency risk in 2009. The likely trend of PACICC's regulatory risks during 2009 is ***increasing***.
Financial risks The risk that external financial developments, or PACICC's management of its assets and liabilities, could impair a timely and effective response to a member company failure	***8 risks in total*** 1 high priority	While PACICC has taken steps to ensure that its financial risks are well-managed and under control, the credit crisis has reduced the P&C insurance industry's financial strength. As a result, PACICC considers the likelihood of two of its financial risks – a sizeable member failure, and possible non-payment of assessment obligations – to have increased in 2008. The likely trend of PACICC's financial risks during 2009 is ***increasing***.
Operational risks The risk that PACICC's operations could be disrupted or strained, either by procedural problems, or by a lack of skilled human resources able to respond to the failure of a member company	***8 risks in total*** 1 high priority	PACICC has been successful in mitigating its operational risks through better insolvency preparedness. Our plans are also well-advanced toward addressing the main risk in this category: the need to secure additional claims-management resources in the event of a large failure. While ratings for two risks in this category were increased in 2008, the likely trend of PACICC's operational risks during 2009 is ***stable***.
Reputation risks The risk that an event could adversely affect stakeholder views of PACICC, potentially resulting in a loss of trust and confidence in the Corporation	***12 risks in total*** 1 high priority	Controls at PACICC to protect against and mitigate reputation risks are well-established (based on testing, learning and improvements through the successful resolution of 12 member insurance company insolvencies). No risks were re-rated in this category in 2008, and the likely trend of PACICC's reputation risks during 2009 is ***stable***.

PACICC ERM: Risk intensity



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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, 2008 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, 2008 and the results of its operations and the changes in its 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, 2009

Year ended and as at December 31, 2008, with comparative figures for 2007
(In thousands of dollars)

	2008				2007			
	Operating Fund	Compensation Fund	Liquidation Funds	Total	Operating Fund	Compensation Fund	Liquidation Funds	Total
Fund balances, beginning of year	$1,703	$40,160	$5,088	$46,951	$1,698	$38,608	$9,410	$49,716
Member assessments (refunds)	1,089	–	(3)	1,086	1,063	–	6,990	8,053
Investment income	58	1,940	539	2,537	78	1,552	634	2,264
Funding from liquidations and other	200	–	129	329	201	–	–	201
Liquidation dividends	–	–	4,337	4,337	–	–	2,718	2,718
Increase in unrealized gains on available-for-sale assets	–	850	–	850	–	–	–	–
	3,050	42,950	10,090	56,090	3,040	40,160	19,752	62,952
Claims and expenses	–	–	(27)	(27)	–	–	9,424	9,424
Unearned premium reimbursements	–	–	156	156	–	–	–	–
Administrative expenses (note 7)	1,347	–	–	1,347	1,337	–	–	1,337
Refund to members (note 5)	–	–	36	36	–	–	5,240	5,240
Fund balances, end of year	**$1,703**	**$42,950**	**$9,925**	**$54,578**	$1,703	$40,160	$5,088	$46,951
Fund balances represented by:								
Cash and term deposits (note 6)	$305	$12,257	$15,571	$28,133	$73	$6,057	$13,239	$19,369
Bonds (note 6)	–	30,421	–	30,421	–	33,498	–	33,498
Accrued interest	–	272	22	294	1	605	48	654
Interfund receivable (payable)	1,416	–	(1,416)	–	1,677	–	(1,677)	–
Member assessment billed and receivable	–	–	–	–	17	–	20	37
Dividends receivable	–	–	–	–	–	–	–	–
Other receivables	148	–	–	148	62	–	–	62
	1,869	42,950	14,177	58,996	1,830	40,160	11,630	53,620
Accounts payable	166	–	3,813	3,979	127	–	6,194	6,321
Refund payable to members (note 5)	–	–	439	439	–	–	348	348
Fund balances, end of year	**$1,703**	**$42,950**	**$9,925**	**$54,578**	$1,703	$40,160	$5,088	$46,951

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*

For the year ended and as at December 31, 2008

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 and for the year then ended. Actual results could differ from those estimates. The significant accounting policies are as follows:

(a) Effective January 1, 2008, the Company adopted The Canadian Institute of Chartered Accountants' Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862"), and Handbook Section 3863, Financial Instruments - Presentation ("Section 3863").

Sections 3862 and Section 3863 replace Handbook Section 3861, Financial Instruments - Disclosure and Presentation. These new standards enhance users' ability to evaluate the significance of financial instruments, related exposures and the management of these risks. The new requirements are for disclosure only and do not impact financial results of the Company.

(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 estimated 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) Term deposits have been designated as available-for-sale ("AFS") and are recorded at fair value. Interest income is recorded on the accrual basis.

Bonds are designated as AFS and are recorded at fair value, determined based on quoted market bid prices. Both realized gains and losses and unrealized gains and losses from changes in fair value are recorded as an adjustment to the Fund balance in which the bonds are held, in the statement of operations and changes in fund balances and financial position. Interest income is recorded on the accrual basis.

In 2007, bonds were designated as held to maturity ("HTM") and carried at amortized cost. During 2008, the bond portfolio was reclassified as AFS as a result of the decision to sell part of the bond portfolio prior to maturity.

(d) 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.

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

(f) 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.

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

(h) 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.

(i) 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, 2008, capital assets acquired by the Corporation had been fully amortized.

(j) 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.

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, 2008, member administrative levies totalled $1,089,475 (2007 - $1,063,542).

(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 $22,887,343 to date. Claims paid to date by the liquidator total $18,439,951 and liquidation dividends of $2,364,156 have been received to date, of which $344,294 were recognized in 2008. Provisions of $2,580,000 have been made for future claim payments.

(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 $3,150,643 have been received to date, of which $414,356 were recognized in 2008. Claims paid to date by the Corporation total $4,470,568.

(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. 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. Cumulatively to December 31, 2008, the eligible claim payments made by the Corporation under this agreement amounted to $25,287,476.

Funding for PACICC expenses of $129,245 with regard to this liquidation was received in 2008. No further funding for expenses will be available to PACICC.

(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 $4,962,189. Liquidation dividends received to date total $5,250,000, of which $750,000 has been recognized in 2008. Provisions of $265,000 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 $18,973,591 have been received to date, of which $2,828,670 was received in 2008. The total claims paid to date by the Corporation amount to $23,464,563. Refunds totalling $5,275,969 have been declared, of which all but $75,148 has been distributed.

(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.

For the year ended and as at December 31, 2008
(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	$52	$427	($135)	$1,280	$581	$481	$151	$757	$215	$1,613	($334)	$5,088
Assessments	–	–	–	–	–	–	–	–	–	–	(3)	(3)
Funding from liquidator	–	–	129	–	–	–	–	–	–	–	–	129
Investment income	38	22	–	82	144	18	–	23	6	46	160	539
Liquidation dividends	–	414	–	750	2,829	–	–	–	–	–	344	4,337
	90	863	(6)	2,112	3,554	499	151	780	221	1,659	167	10,090
Claims paid	–	38	–	111	–	–	–	–	–	–	1,150	1,299
Accrued claims	–	–	–	–	–	–	–	–	–	–	(2,020)	(2,020)
Expenses	29	17	(6)	22	124	8	–	1	–	6	493	694
Unearned premium reimbursements	–	–	–	–	156	–	–	–	–	–	–	156
Dividends distributed	–	–	–	–	36	–	–	–	–	–	–	36
Fund balances, end of year	**$61**	**$808**	**–**	**$1,979**	**$3,238**	**$491**	**$151**	**$779**	**$221**	**$1,653**	**$544**	**$9,925**
Fund balances represented by:												
Cash and securities	$519	$990	–	$2,991	$4,767	$660	$115	$836	$228	$916	$3,549	$15,571
Accrued interest	1	1	–	4	7	1	–	1	–	1	6	22
Interfund receivable (payable)	95	(183)	–	(430)	(1,450)	(52)	36	(58)	(7)	736	(103)	(1,416)
	615	808	–	2,565	3,324	609	151	779	221	1,653	3,452	14,177
Accounts payable	190	–	–	286	11	18	–	–	–	–	2,829	3,334
Accrued expenses - liquidator	–	–	–	300	–	100	–	–	–	–	79	479
Refund payable to members (note 5)	364	–	–	–	75	–	–	–	–	–	–	439
Fund balances, end of year	**$61**	**$808**	**–**	**$1,979**	**$3,238**	**$491**	**$151**	**$779**	**$221**	**$1,653**	**$544**	**$9,925**

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, 2008, PACICC had paid out $19,516,296 from the total amount authorized for distribution. Of the residual amount of $364,224, PACICC expects to pay out $213,148 when instructions are received from several member companies on how to allocate the funds; the remaining amount of $151,076 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 $5,275,969. The final $75,148 will be distributed when instructions are received from several member companies on how to allocate the funds.

In 2008, $35,763 (2007 - $5,165,057) has been paid out.

6. Investments

(a) Carrying amounts and fair value

	2008		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and term deposits	$28,133	$28,133	$19,369	$19,748
Bonds	30,421	30,421	33,498	33,848
Total	**$58,554**	**$58,554**	$52,867	$53,596

Term deposits and bonds are designated as AFS and are recorded at fair value.

In 2007, bonds were designated as HTM and carried at amortized cost. During 2008, the bond portfolio was reclassified as AFS as a result of the decision to sell part of the bond portfolio prior to maturity. The increase in unrealized gains on AFS assets recognized in 2008 in the statement of operations and changes in fund balances and financial position reflects this reclassification. Notwithstanding the 2008 bond sales to realign the portfolio for investment management reasons, it remains PACICC's investment policy to acquire and hold suitable bonds to maturity, rather than to actively trade the bond portfolio.

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

(i) Cash and term deposits

These investments have an aggregate carrying amount of approximately $28,133,000 (2007 - $19,369,000). 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 approximately $1,563,000 (2007 - $2,500,000) with maturity terms over a year. The effective interest rates on these securities were 1.79% to 4.20% for 2008 (2007 - 3.20% to 5.10%).

(ii) Bonds

	2008					2007	
	Remaining term to maturity						
	Within 1 year	1 to 5 years	Over 5 years	Total carrying amount	Effective rates %	Total carrying amount	Effective rates %
Government of Canada	$2,910	$2,126	–	$5,036	3.75% to 3.75%	$6,352	3.75% to 6.00%
Corporate	4,109	21,276	–	25,385	3.75% to 5.42%	27,146	3.38% to 5.25%
	$7,019	**$23,402**		**$30,421**	**3.75% to 5.42%**	$33,498	3.38% to 6.00%

7. Administrative expenses

	2008	2007
Operating Fund:		
Salaries and benefits	$671	$663
Research and other consulting	107	183
Premises	126	107
Miscellaneous	76	63
Legal fees	73	50
Travel	56	54
Board of Directors' fees and expenses	54	65
Corporate secretary and accounting services	42	43
Furniture and equipment	34	30
Telephone and postage	35	27
Printing and supplies	23	35
Insurance	17	15
Bank charges	33	2
	$1,347	$1,337
Compensation Fund:		
Inter-fund investment expense	$31	–

8. Assessment capacity

PACICC has the ability to make a maximum potential annual general assessment of members of 1.5% (2007 - 1.5%) of covered premiums written, which amounted to approximately $511,000,000 in 2008 (2007 - $508,000,000). As a result of the loan arrangement with the liquidator of Reliance (note 3(e)), $25,000,000 (2007 - $25,000,000) of this assessment capacity is reserved to cover possible obligations of the Reliance liquidation.

9. Lease commitments

In 2007, the Corporation renewed its lease for office premises for a period of four years ending December 31, 2012. The annual lease commitment is $58,284.

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.

12. Financial risk management

(a) Credit risk

Credit risk refers to the risk of financial loss from the failure of a counterparty to honour its obligation to the Corporation. The only assets exposed to this type of risk are the investments held in the Compensation Fund and the funds on deposit with a financial institution. In order to minimize the exposure of risk, a comprehensive investment policy has been developed.

Generally, the Corporation's investment policy is to be as conservative as possible so as to protect the capital against undue financial and market risk while having ready access to the funds and increasing the value of the funds. The investments will be a mix of high quality fixed income securities and cash equivalent instruments. The funds cannot be invested in equities. The policy also includes composition limits, issuer type limits, quality limits, single issuer limits, corporate sector limits and time limits.

The breakdown of the total investment portfolio by the higher of the Standard and Poors' and Moody's credit ratings as at December 31, 2008 is:

Credit rating	Fair value	Percentage of portfolio
AAA	$50,219	85.8%
AA	8,335	14.2%
Total	$58,554	100.0%

(b) Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. Generally, the risk exposure for the Corporation is limited to the interest and dividend investment income which will be reduced during sustained periods of lower interest rates as higher yielding fixed income securities mature and the proceeds are reinvested at lower rates.

As at December 31, 2008, management estimates that an immediate hypothetical 1% move in interest rates, with all other variables held constant would impact the market value of bonds by approximately $696,640.

(c) Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet financial commitments. Liquidity requirements for the Corporation are met primarily by two sources. Daily operational expenses are met by an annual assessment to members of the Corporation at the beginning of each year as approved by the Board of Directors.

In the event a member company becomes insolvent and it is necessary for the Corporation to make payments to insured policy holders, the Corporation would use funds available in the Compensation Fund. If additional funds are required, the Corporation has the ability to make a maximum annual general assessment of its members of 1.5% of covered premiums written (2008 - $511,000,000).

PACICC member companies

ACE INA Insurance
Affiliated FM Insurance Company
AIG Commercial Insurance Company of Canada
Alberta Motor Association Insurance Company
Allianz Global Risks U.S. Insurance Company
ALO Assurances, compagnie mutuelle
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
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
AssurePro Insurance Company Limited
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 General Insurance
AXA Insurance (Canada)
AXA Pacific Insurance Company
AXIS Reinsurance Company (Canadian Branch)

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
Capitale, compagnie d'assurance générale
Cardif-Assurances Risques Divers
Centennial Insurance Company
Certas Direct Insurance Company
Certas Home and Auto Insurance Company
Chrysler Insurance Company
Chubb Insurance Company of Canada
Clare Mutual Insurance Company
Coachman Insurance Company
Commonwealth Insurance Company
Constitution Insurance Company of Canada
Continental Casualty Company
Co-operators General Insurance Company
Coseco Insurance Company
CUMIS General Insurance Company

Desjardins General Insurance Inc.
Dominion of Canada General Insurance Company
Dorchester Assurances

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
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 North American Insurance Company
Fortress Insurance Company

GCAN Insurance Company
General Reinsurance Corporation
Germania Mutual Insurance Company
Global Reinsurance 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
Industrielle Alliance, Assurance auto et habitation inc.
Industrial Alliance Pacific General Insurance Corporation
ING Insurance Company of Canada
ING Novex Insurance Company of Canada
Innovassur, assurances générales Inc.
Insurance Company of Prince Edward Island
Insurance Corporation of British Columbia
International Insurance Company of Hanover Limited

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 Canada
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 Société d’assurance Inc.
Optimum West Insurance Company

PAFCO Insurance Company
Peace Hills General Insurance Company
Pearl Assurance Public Limited Company
Pembridge Insurance 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

Primmum Insurance Company

Prince Edward Island Mutual Insurance Company

Pro-Demnity Insurance Company

Progressive Casualty Insurance Company

Promutuel Gaspésie-Les Iles Société mutuelle d'assurance générale

Promutuel Reassurance

Promutuel des Riverains

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 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

Sunderland Marine Mutual 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

Triton 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

Westport Insurance Corporation

XL Insurance Company Ltd.

XL Reinsurance America Inc.

York Fire and Casualty Insurance Company

Zenith Insurance Company

Zurich Insurance Company

PACICC board of directors

2008 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

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President and Chief Executive Officer

Full-time staff

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Vice President, Operations

Darrell Leadbetter
Manager, Research

Tracy Waddington
Manager, Administration

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John Connor
Manager, Claims

Randy Bundus
Vice President, Secretary and Counsel

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