Solvency Matters

A quarterly report on solvency issues affecting P&C insurers in Canada

PACICC

Issue 12 - December 2020

Insolvency protection for home, automobile and business insurance customers

PACICC Priorities

Permanent Priority Issue

Mitigating Systemic Risk from Quake

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...Continued on Page 2.

Emerging Issues

(Blair Manktelow & Louis-Christian Dupuis)

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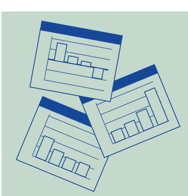
...Continued on Page 6.



Ready to help Canada recover (Grant Kelly)

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...Continued on Page 8.

Risk Officer's Forum (Ian Campbell)

Upcoming Risk Officer's Forum meetings and webinars

Webinar Dates in 2021

Wednesday, February 24 (Industry Panel Discussion)
Topic: Risk Identification & Risk Assessment

...Continued on Page 10.

From the Desk of the President (Alister Campbell)

In Times of Peace...

Since my appointment as CEO at PACICC almost two years ago now (how time flies!), I have found occasion to use the vaguely recalled expression "In Times of Peace…Prepare for War"...

...Continued on Page 11.

Industry Events
(subject to confirmation)

February 11
CatIQ Connect

February 24
PACICC Emerging Risks Webinar - Risk Identification & Risk Assessment

April 1
PACICC Risk Officer's Forum Meeting

April 22-23
InsurTech North

May 19
PACICC Emerging Risks Webinar - ESG Scores – Implications for Investments and Underwriting

June 2-4
CICMA/CIAA Atlantic Joint Conference

June 10
CatIQ Connect

Priority Issues: 2019 to 2022

Permanent Priority Issue

Mitigating Systemic Risk from Quake

On November 6th, officials from Finance Canada outlined their policy intentions to Insurance Bureau of Canada and PACICC. Finance Canada shared their workplan and committed to work with the insurance industry over the next 12 months to develop policy "options" for consideration by the Government (target by end of 2021), including:

- Developing insurance-based strategies for addressing broader natural disaster protection gaps, including earthquakes;
- Leveraging Canada's robust private insurance market; and
- Responding to evolving protection gaps and insurance issues as climate change-related perils intensify over time.

Their goal is to present multiple policy options to government by the end of 2021. They will evaluate these policy options based on their contribution to the stability of the financial sector, the degree to which they impact the protection gap and the potential fiscal impact on government.

Included in the table-setting section of their presentation was an explicit recognition of PACICC and a clearly-stated concern regarding the potential that PACICC could not respond in a scenario above its defined Risk Appetite Limit. PACICC will engage with Finance Canada to ensure a common understanding of this element of our model's current design and to explore options to evolve our model to better address systemic risk.

At our most recent Board Meeting, PACICC was given approval to address another core element of our Systemic Risk Action Plan – being formally designated as the P&C Compensation Association by Ottawa under the *Insurance Companies Act*. This designation may prove useful to ensure that PACICC can play the right role in the final resolution of the systemic risk issue. In 2021, PACICC will initiate discussions with OSFI on this important topic.

Priority Issue for 2019

Coverage and Benefits Review – Follow-up Items

PACICC's Board approved significant coverage and benefit level adjustments at its November 7, 2019 Board Meeting. The changes to coverage and benefits were implemented in April 2020. Following the Board's April 9, 2020 meeting, the issues of developing a hardship policy, exploring excess reinsurance coverage and the proposed removal of Accident Benefits from PACICC coverage remained unresolved. Further work was required on these issues.

a) **Hardship Policy –** PACICC's Memorandum of Operation allows policyholders to seek payments larger than PACICC's claim limits if they are experiencing "hardship." PACICC staff noted that the lack of a framework to govern the acceptance, approval and processing of hardship claim requests could prove problematic if an insolvency occurred that involved a larger insurer and/or was triggered by a natural catastrophe. Such a scenario would present the PACICC Board with a higher-than-usual number of large losses. At their November 5, 2020 meeting, the Board approved a Hardship Claim Policy. The Policy covers: claims filing, supporting documentation, claims processing, stakeholder input, decision criteria and appeals.

b) **Aggregate Reinsurance Cover –** In April, 2020, the PACICC Board appointed Guy Carpenter as PACICC's broker in the development of options for aggregate reinsurance cover in the case of a single-company, natural catastrophe-triggered insolvency. The team at Guy Carpenter has approached numerous reinsurers with a proposal for excess reinsurance coverage to ensure that PACICC can respond effectively to a large number of "hardship" cases, without the need to increase the size of any required industry Assessment to fund the resolution. These discussions are ongoing and will continue into early 2021.

c) **Statutory Accident Benefits –** A change in the treatment of Accident Benefit claims in some provinces (to align with the model already in place in Ontario) could enhance policyholder protection for catastrophically injured policyholders, and also help to mitigate the risk of a collapse of the insurance industry following a catastrophic earthquake. As a result of cascading provisions in Ontario, individuals in automobile accidents with claims involving the use of Statutory Accident Benefits are to claim from the other vehicle in the accident, or through uninsured motorist coverage (Motor Vehicle Accident Claims Fund in Ontario). As coverage is nearly always available from these sources, in practice this means that PACICC does not provide coverage for SABs in Ontario. PACICC has provided information to Insurance Bureau of Canada to assist with their ongoing lobbies to improve provincial auto insurance systems.

Priority Issue for 2020
Expanding PACICC's Resolution Toolkit

PACICC's Priority Issue for 2020 was to establish, in collaboration with Member Insurers and regulatory partners, the criteria that would be used by our Board to determine if and how to engage in resolution action. The idea of an expanded "toolkit" does not mean that PACICC is asking for broader powers. In fact, when PACICC was established in 1989, the industry conferred the Corporation with substantial authority to engage in resolution action. Before PACICC could use these powers for the first time however, the PACICC Board felt it was essential that we engage the industry in consultation, and develop an effective protocol and decision-making framework to help guide our actions in such special circumstances. On July 31st, PACICC issued a Consultation Paper seeking guidance on the following questions:

- How should PACICC respond to a range of different, remote but credible scenarios?
- What resolution tools/options might best suit these scenarios?
- What are the implications for our governance model and what, if any, changes might be required?
- What are the criteria by which the various options and alternatives should be evaluated by the PACICC Board?

PACICC received thoughtful and comprehensive feedback from almost 80% of our industry (by market share) as well as a fulsome response from a Special Working Group of the Insurance Bureau of Canada.

The goal for 2020 was to develop a better understanding of how to operationalize these tools in practice, before ever being called upon to do so. Member feedback helped PACICC to evolve its original draft Resolution Protocol and to create a final version to guide the deliberations of the PACICC Board in scenarios where the prospect of intervening prior to liquidation is being contemplated. At its November 5, 2020 meeting, the PACICC Board approved the following Resolution Protocol and authorized PACICC staff to further test its application in 2021 by conducting desktop simulations with regulators.

PACICC Resolution Protocol* (approved by PACICC's Board on November 5, 2020)

PACICC's Memorandum of Operation (Section XI, Paragraph 40) permits the PACICC Board of Directors to take "reasonable steps" prior to a Member being ordered into wind-up, if such steps are consistent with the Corporation's objectives. These "steps" included – but were not limited to – issuing guarantees, providing financial support or assisting in the sale, transfer or reinsurance of a book of business of a distressed Member Insurer. Such broad and flexible powers appropriately reflect the reality that each distress scenario will be unique and that the insurance industry wanted to ensure that the PACICC Board had clear authority to act in alignment with the organization's three-part mandate. But, given the potential for steps of this type to be subject to substantial risk and come at significant cost to the industry, the Board concluded that some form of "Protocol" and/or decision-making criteria would be beneficial.

The Protocol defined below is the outcome of a broad-based industry consultation exercise over an 18-month period. At its Meeting on November 5, 2020, the PACICC Board agreed that it will use the following process and criteria to determine if the Corporation should engage in resolution actions prior to a Winding-up Order being issued for a distressed Member Insurer.

PACICC Priorities Con't

The three-step process is as follows:

STEP 1: DETERMINATION THAT PACICC'S MISSION IS AT RISK

Determination by the Pre-Insolvency Regulatory Liaison (PIRL) Committee of PACICC, that a potential liquidation of a Member Insurer could cause the Corporation to fail in one or more components of its mission to:

- Protect eligible policyholders from undue financial loss in the event that a Member Insurer becomes insolvent
- Minimize the costs of insurer insolvencies
- 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.

STEP 2: REVIEW OF SPECIFIC CIRCUMSTANCES

If the PIRL Committee determines that PACICC's mission is at risk, it will then seek to confirm all of the following:

- The Supervisor has determined that recovery is unlikely – The distressed Member Insurer has been designated as at least Stage 3 (out of 4) by its prudential supervisor, in line with a published Intervention Guide
- "Runway" exists – There is sufficient time for PACICC to take meaningful action
- Appropriate resources are available – PACICC is able to secure the required expertise and resources to successfully intervene
- Any potential resolution action(s) can be conclusively demonstrated to be materially less expensive than liquidation – The cost/benefit evaluation may include both hard dollars and an evaluation of industry reputational impacts
- Whether an Assessment is required to fund the resolution action – If an Industry Assessment is required, the criteria below must also be met.

STEP 3: EVALUATION AGAINST CRITERIA REQUIRED FOR AN ASSESSMENT

If the PIRL Committee informs the PACICC Board of Directors** that an Industry Assessment may/will be required to successfully complete a proposed resolution action, the PACICC Board must be satisfied that the following criteria will both be met:

- Supervisor and PACICC can both be satisfied with the governance of the troubled insurer during any transition period – The Board of Directors and Senior Management are replaced, or have governance authority transferred to secure oversight in which PACICC and the Supervisor have complete confidence
- Capital providers of the troubled insurer will not benefit – The intent of the resolution action is to protect policyholders and claimants. Industry funds will not:
  a. Benefit current capital providers of the distressed insurer
  b. Be used to revive the entity under current ownership.

***This Protocol is intended for the purpose of evaluating the potential resolution action to be undertaken by PACICC in the context of a single insurer failure. It is not intended or designed to respond to the special circumstance of serial insurer failure in the wake of a natural disaster such as a major earthquake.**

****No Industry Assessment can be approved by PACICC without a vote of the Board including a quorum of Industry Directors. At the point that PACICC's PIRL Committee has evaluated all the issues outlined in this Protocol and is satisfied that the above criteria are, or can be, met, the Committee will call for a meeting of the full PACICC Board of Directors. At this point, it will be necessary for either the Regulator or the distressed Member Insurer to permit the PIRL Committee to share the name of the distressed Member Insurer with Industry Directors.**

Priority Issue for 2021

Contingency Planning and Desktop Simulations

PACICC has already begun upgrading its capabilities to respond to an insolvency situation, by working with external consultants to upgrade our internet and social media response capabilities. We have also begun to build out a modernized, step-by-step, Insolvency Contingency Plan, with an associated Communications Plan, including pre-prepared materials and back-up infrastructure. Much more work needs to be done however, to ensure that we are fully capable of responding in the professional way required in the case of a larger insolvency.

PACICC’s 2021 Strategic Priority will be to enhance PACICC’s Contingency Planning and Preparedness. The plan is to engage in “desktop simulation exercises”, first with the AMF and then with OSFI, that will allow PACICC to road-test our current protocols and identify areas where the Corporation needs to adjust our current mechanisms, enhance our capabilities or even fine-tune governance.

Later in the year, we anticipate a second session with the AMF, which will allow us, for the first time, to explore the potential application of “resolution actions” developed in the course of our work on the “toolkit” in 2020. PACICC will engage the Pre-Insolvency Regulatory Liaison (or “PIRL”) Committee of the Board, comprising our independent Directors, directly in this work, since it is anticipated that they would play a central role in such scenarios.

Priority Issue(s) for 2022

Review of Scope/Scale/Uses of PACICC Compensation Fund

The PACICC Compensation Fund was established via a capital levy of Member Insurers over a period of three years between 1998 and 2000 ($10M a year, assessed by market share of covered lines). The primary purpose of the Fund was to ensure that the Corporation was in a position to rapidly refund Unearned Premiums to policyholders affected by an insolvency, and thus enable PACICC to materially reduce the number of adversely impacted consumers in the days/weeks immediately following an insolvency. While the Fund has been earning a steady return since its initial founding (and has now almost doubled in size), recent actuarial analysis indicates that it would not be adequate to handle the timely refund of Unearned Premiums after the failure of any of Canada’s 70 largest insurers.

In the last year, IBC has included an expanded PACICC Compensation Fund as a possible component of an overarching joint public/private solution to the systemic risk issues we face as a country after a major earthquake. And PACICC itself has been exploring a number of new strategies and tactics, including the possible purchase of reinsurance, engaging in resolution actions, and even establishing a “bridge insurer” (similar to the one established by Assuris – our counterpart for the Canadian life insurance industry).

In 2021, PACICC staff will develop a proposed Action Plan on this Priority Issue for Board Review and Approval.

Emerging Issues

Unforeseen Significant Events. Are they really unforeseen?

- **by** Blair Manktelow & Louis-Christian Dupuis

Over the last thirty years, the Canadian P&C insurance industry has experienced several significant events that generally are considered to be unforeseen events; prominent examples being:

1. 1991 Calgary hail storm
2. 1998 Quebec ice storm
3. 2013 Alberta and Ontario floods
4. 2016 Fort McMurray fire
5. 2020 coronavirus pandemic (COVID-19)

Each of these unforeseen events was preceded by at least one similar event. To illustrate this, consider the following: the 1998 Quebec ice storm was preceded by the 1986 Ottawa ice storm and the 1961 Quebec ice storm. The 2013 floods were preceded by the 1996 Saguenay flood. The Slave Lake fire happened in 2011, five years ahead of the Fort McMurray fire. And, the COVID-19 pandemic was preceded by SARS in 2003 and H1N1 in spring 2009 and Spanish flu in 1918. So why were these events unforeseen, when similar events had occurred previously?

In each case mentioned above, the prior event(s) (other than the 1918 Spanish flu) was of lesser magnitude due to event characteristics such as the location of event, the duration of event, the severity of the event, or in the case of disease, the rate of contagion. In each of the cases cited above differences in the characteristics of the second or third event drove significantly more adverse results. When examining the risks to which an insurance company is exposed, it is useful to consider prior events, to assess how much worse (or better) an event could have otherwise been, and what would happen if the contributing factors to an event were more adverse than their historical or current level. For each of the potential risks identified, how might the insureds and insurance companies be affected under different conditions? What could be done to mitigate these risks and/or make them more manageable?

“When examining the risks to which an insurance company is exposed, it is useful to consider prior events, to assess how much worse (or better) an event could have otherwise been, and what would happen if the contributing factors to an event were more adverse than their historical or current level.”

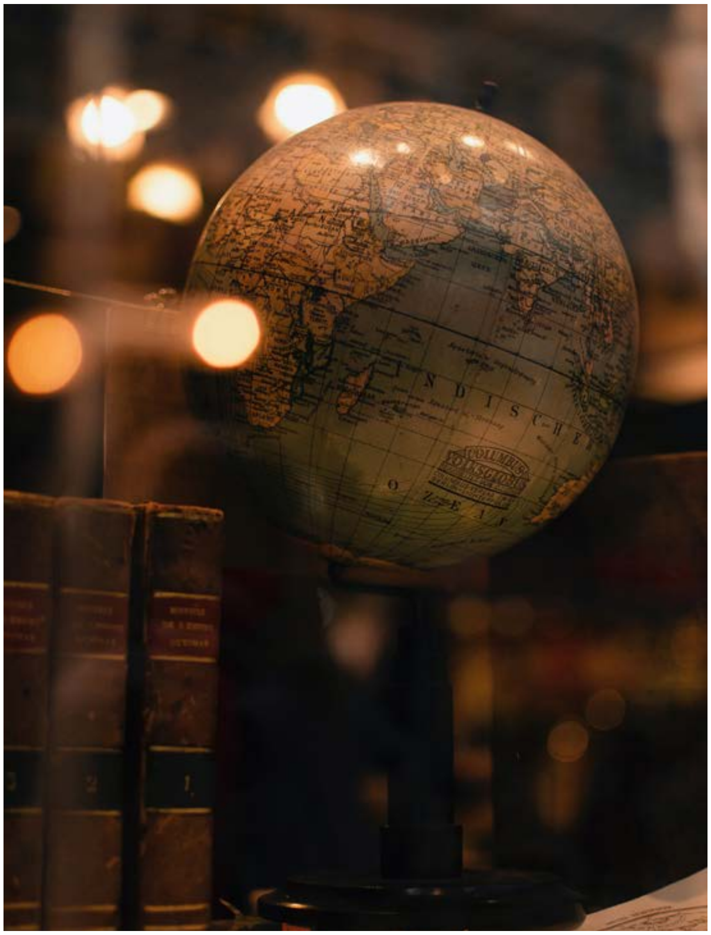
Taking a closer look at the virus events preceding the COVID-19 pandemic we note the following:

1. The 2003 SARS outbreak that preceded the COVID-19 pandemic resulted in reports of 8,096 persons with probable infection and 774 deaths. The transmissibility of this virus was less than that of COVID-19, but the lethality of it was greater.
2. The 2009 H1N1 influenza virus contained a unique combination of influenza genes not previously identified in animals or people (CDC.gov). The CDC estimated that 151,700 to 575,400 people worldwide died from this virus during the first year the virus circulated. The mortality rate in the United States was about 0.02% (12,469 deaths out of 60.8 million cases) while the 1918 H1N1 virus was estimated to have killed between 1 and 3 percent of the world’s population.

In light of these prior events, can COVID-19 be considered truly unforeseen?

Over 67 million people have tested positive for COVID-19 as of December 7, 2020, with about 1.5 million deaths attributed to the virus. The economic damage has been immense and ongoing. The Canadian P&C insurance industry has been affected in many ways. Employees are working remotely. Insureds have reduced or canceled coverages impacting

Blair Manktelow & Louis-Christian Dupuis, Principals, Eckler Ltd.



premium volume. Less traffic on the road has reduced the number of collisions so automobile claims have decreased. Business closures due to lockdown directives have resulted in business interruption claims, the majority of which are not covered under existing policy wordings. Liability exposure may exist where clients were negligent.

The pandemic is far from over. We remain in its midst. Thus, it is important to consider what could happen and be prepared for it. What could make the pandemic worse (such as multiple waves), and what would make it better (such as an effective vaccine)? For each possibility identified, how would insureds and insurance companies be affected? What could an insurer do to mitigate these risks and/or to capitalize on an opportunity? We think that more detailed and thorough examination of moderate severity events might assist in the preparations for the adverse circumstances associated with more infrequent and higher severity events.

Solvency Analysis

Ready to help Canada recover - by Grant Kelly

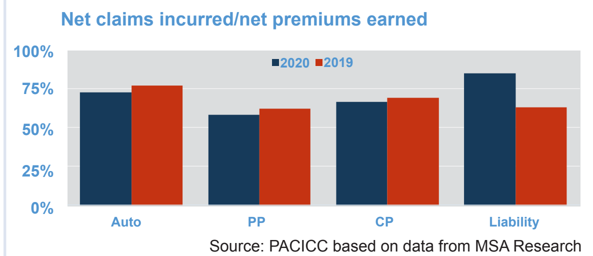
Through the first three quarters of 2020, Canada's property and casualty insurers generated sustainable earnings that allowed the industry to build its capital base to $52.6 billion. This is the most capital insurers have ever held in Canada. Strong, resilient capital is the foundation of the insurance industry and this firm base should allow insurers to play a strong role in assisting Canada's rebound from the COVID-19 pandemic.

The industry's return on equity for the first nine months of 2020 was 8.3 percent. This was higher than the 6.3 percent reported by insurers over the same period in 2019. Strong underwriting results were posted in Auto insurance, with a loss ratio of 72.7 percent. This is a significant improvement from the 77.1 percent reported in 2019. It is important to note that this is a national figure and there remain significant trouble spots. The loss ratio for Auto insurance in Alberta increased from 84.9 percent in 2019 to 89.0 percent in 2020.

The loss ratio in Personal Property insurance dropped from 62.0 percent in 2019 to 58.0 percent in 2020. The loss ratio in Commercial Property also fell from 69.2 percent in 2019 to 66.4 percent in 2020. The improvements in property markets come not withstanding more than $2.3 billion in claims payments for catastrophic losses. The major storms in Alberta and Saskatchewan led to Personal and Commercial Property loss ratios being significantly higher than the national average in these provinces in 2020.

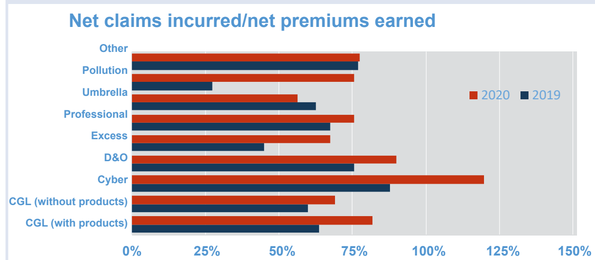
The other source of continuing concern in 2020 is Commercial Liability insurance where the loss ratio was 84.6 percent. There is general weakness in this marketplace, with eight of the nine segments of the Commercial Liability marketplace reporting worse results in 2020, compared to the same period in 2019. A loss ratio at this level is not sustainable for commercial insurance providers. In this context, "not sustainable" simply means that, were the loss ratio in this line of insurance to remain at this level, insurers that provide this coverage would see their capital base begin to erode over time.

Loss Ratios by line



Source: PACICC based on data from MSA Research

Liability Loss Ratios



Source: PACICC based on data from MSA Research

Select Solvency Indicator Ratios

($ millions)	Q3 2020	Q3 2019
Average Equity	$52,644	$49,961
Return on Equity (ROE)	8.3%	6.3%
Return on Investment (ROI)	3.3%	3.7%
Comprehensive ROE	10.5%	9.4%
Comprehensive ROI	4.3%	5.2%
MCT Ratio (Capital Available/Capital Required)	239.7%	239.2%
BAAT Ratio (Net Assets/Capital Required)	306.8%	325.1%

3rd Quarter 2020 Financial Year Results

($ millions)	1st nine months 2020	1st nine months 2019	Percentage Change
Direct Premiums Written (DPW)	$50,140	$46,389	8.1%
Net Pemiums Earned (NPE)	$41,261	$36,802	12.1%
Net Claims Incurred	$27,975	$25,166	11.2%
Operating Expenses	$12,667	$11,847	6.9%
Underwriting Income	$768	–$25	3,172%
Net Investment Income	$2,831	$3,007	–5.8%
Net Income	$3,270	$2,361	38.5%
Combined Ratio	98.5%	100.6%	
Net Loss Ratio	67.8%	68.4%	

Source: MSA Research as of November 24, 2020.

Wide differences in profitability across insurer - by Grant Kelly

Canada's property and casualty (P&C) insurance industry comprises roughly 175 individual insurers and there is significant variation in the financial results of these companies. To review performance of the industry, it is useful to look at performance by quartile. In the top quartile, the 43 most-profitable insurers reported a very favourable average return on equity (ROE) of 17.4 percent. By contrast, the second quartile report an average ROE of only 6.4 percent while the third quartile report an ROE of 2.2 percent, The 43 least-profitable insurers reported an average ROE of -6.5 percent – these insurers have lost money so far in 2020.

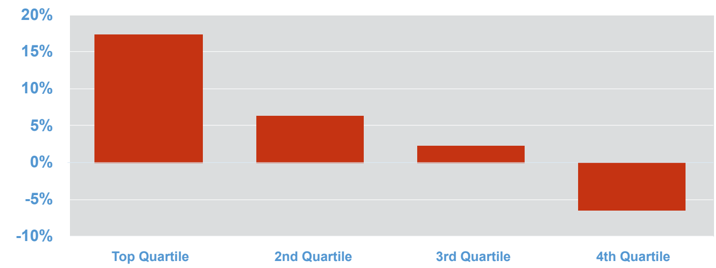
The difference between profitable and unprofitable insurers is underwriting performance. The top-tier insurers posted an average loss ratio of 52.3 percent in the first nine months of 2020. The loss ratio of the second tier of profitable insurers was a much higher 58.5 percent. And it gets worse…the third tier of insurers reported an average loss ratio of 73.5 percent, and the least profitable insurers reported an unsustainable average loss ratio of 86.8 percent.

Of course, insurers supplement their underwriting results by investing. So, in theory at least, it is possible for poor underwriting performance to be offset by particularly strong investment returns. Experience contradicts theory in this regard and 2020 financial results demonstrate this compellingly. While all insurers in the sample posted positive investment earnings, top-tier companies from an underwriting perspective also outperformed their peers on the investment side, posting a return on investment (ROI) of 2.8 percent. By comparison, the second tier of insurers posted a ROI of 2.1 percent, and the third tier of insurers posted a ROI of 1.7 percent. Most significantly, the least-profitable insurers posted a ROI of only 1.5 percent – almost 50% worse than their top-performing underwriting peers.

It is critical to appreciate that, given strict regulatory limits on insurer Investment Policies, it is extremely rare for any Canadian insurer to generate an investment loss. And it is even less likely that this would happen on a sustainable enough basis to create solvency risk. But, investment returns are not a panacea for poor underwriting. Sustained underwriting underperformance over a sustained period is the primary predictor of increased solvency risk. Canadian insurers who are consistently bottom-quartile underwriting performers are those that PACICC will continue to monitor over the medium-term.

Return on Equity

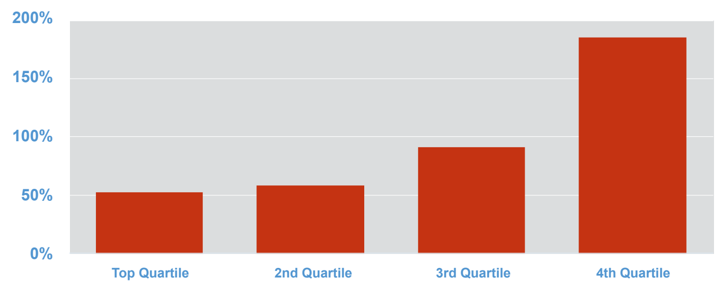
Net income/total equity



Source: PACICC based on data from MSA Research

Loss Ratios

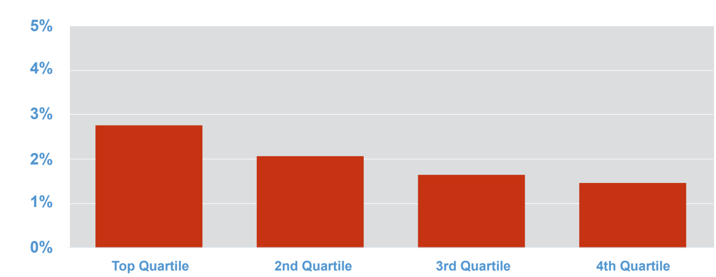
Net claims incurred/net premiums earned



Source: PACICC based on data from MSA Research

ROI

Net investment income/Total invested assets



Source: PACICC based on data from MSA Research

PACICC Risk Officer's Forum

Upcoming Risk Officer's meetings and webinars - by Ian Campbell

The Risk Officer's Forum seeks to enhance risk management within the P&C insurance industry by:

- Discussing and sharing risk management best practices within the industry
- Reviewing and communicating topical risk management information
- Serving as a risk management resource for PACICC and for insurance regulators
- Discussing major existing risks and significant emerging risks within the industry
- Providing resources and information to facilitate research of risk management and related governance topics.

Emerging Risks Webinars

Three Emerging Issues Webinars are held each year, connecting Forum members across Canada in a deep-dive discussion on technical aspects of a specific ERM issue.

Webinar Dates in 2021

Wednesday, February 24 (Industry Panel Discussion)
Topic: Risk Identification & Risk Assessment

Wednesday, May 19 (Expert Panel Discussion)
Topic: ESG Scores – Implications for Investments and Underwriting

Wednesday, October 20 (Industry Panel Discussion)
Topic: Threats to Our Grid Systems (Internet, Electrical)

Risk Officer's Forum Meetings

Forum Meeting include a keynote speaker on a topical industry issue, followed by industry/expert presentations on current ERM issues.

Forum Meeting Dates in 2021:

Thursday, April 1
Topics: OSFI Update on Current Industry Issues
Risk of Civil/Social Unrest – Coverage, Exclusions and Implications
Risk of Long-Term Low Interest Rates

Thursday, September 15
Topics: CEO Perspective on Flood Resiliency Efforts in Canada
Reinsurance Update – Exclusions and Capacity
Results of PACICC Benchmark Survey on ERM Practices

November (date t.b.a., to coincide with OSFI Risk Management Seminar)
Topics: CEO Perspective on Climate Change
COVID-19 Update
Risks of Space Weather Phenomena

For event registration information (pre-registration is required) or to be included in future Risk Officer's Forum member advisories, please contact Ian Campbell, Vice President, Operations, PACICC at icampbell@pacicc.ca or 416/364-8677, Ext. 3224.

Ian Campbell is Vice President - Operations at PACICC

From the Desk of the President

In Times of Peace… - by Alister Campbell

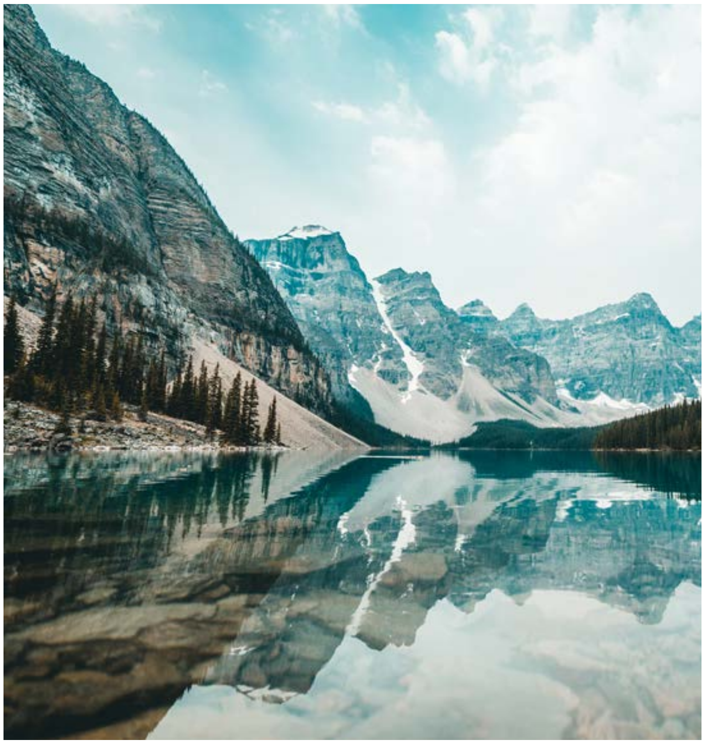
Since my appointment as CEO at PACICC almost two years ago now (how time flies!), I have found occasion to use the vaguely recalled expression "In Times of Peace…Prepare for War" a few times, to describe the work of our organization in a period with a distinct absence of Canadian insurer insolvencies. In the last few weeks, I have been using it again for more specific reasons. So, I looked it up. Google notes that it was first written by a Roman general, Publius Flavius Vegetius Renatus sometime between 384 A.D.and 389 A.D. Like many wise sayings, it has multiple interpretations. Some see it as an admonition to secure "peace through strength." Others see it more as coaching to ensure peacetime is not wasted – because war will always come and it is best to be prepared. The latter interpretation is the one best suited to my purposes today, as I reflect on three distinct examples directly relevant to the current PACICC mandate.

> **"I guarantee that at that moment in the future - when our Board is faced with a tough decision and is using the PACICC Resolution Protocol as a tool to optimize its decision-making - our industry leaders will find themselves deeply grateful that their predecessors found the time to prepare… 'in a time of peace.'"**

In a period where so many of us are required to perform our roles while working from home, I have been pleased to see the spike in attendance at our Risk Officer's Fora and Emerging Risks Webinars. Carefully curated, with the support of an excellent Risk Management Advisory Committee, these events have always been popular among senior-level Risk Management professionals across our industry. But, in this work-from-home period, attendance is up 50%! Since PACICC began to focus on Enterprise Risk Management more than a decade ago, we have worked to ensure that best practice in this rapidly evolving area was shared across the industry. And looking at how well our industry has responded to the extraordinary challenges of a global pandemic, my conviction is that we have now reaped the rewards of proper preparation. It has never been easy for Risk Management departments to gain the buy-in from operating and line functions for the development and maintenance of comprehensive and detailed Disaster Recovery and Business Continuity Plans, when there were so many pressing current-day issues to tackle, and the probability of a "tail risk" actually occurring appeared so remote. Today, I suspect, Boards of Directors and CEOs are all grateful for the way that their Risk Officers helped to prepare them for the test of COVID-19 "in times of peace."

When the far-sighted leaders of our industry founded PACICC some 31 years ago, they did not simply design an institution to manage the challenges of the moment. They carefully and thoughtfully crafted an organization with a purposely broad mandate, intended to ensure that our Board could respond both flexibly and creatively to future insolvencies. In fact, they gave us many of the powers of a "resolution authority", including the authority to intervene – and even employ industry funds – to engage prior to the potential insolvency of a Member Insurer, and to possibly avert that insolvency in pursuit of our mandate to protect policyholders, minimize the costs to the industry and ensure continued consumer confidence in our industry.

Earlier this month, our Board of Directors approved a new Resolution Protocol to guide PACICC at the moment of crisis, when an Insurer Member is on the verge of default and there are avenues to explore which might potentially avert a Court-ordered liquidation. This was the culmination of a meaningful 18-month industry dialogue, beginning with the publication of a major research paper in our *Why Insurers Fail* series, and also including a comprehensive Industry Consultation Paper and Survey which received responses from insurers



representing 80% of our industry by market share. IBC was even able to strike a special Working Group to focus explicitly on the PACICC Survey and ensure a coherent, thoughtful and focused response to the questions we posed.

In the midst of the pandemic and all of the extraordinary challenges that our industry is wrestling with in this unprecedented time, our Members still found the extra time to respond to questions that must have felt highly theoretical, and scenarios that were undeniably low-probability. It cannot be predicted when the next potential insurer failure will occur, but I guarantee that at that moment in the future – when our Board is faced with a tough decision and is using the PACICC Resolution Protocol as a tool to optimize its decision-making – our industry leaders will find themselves deeply grateful that their predecessors found the time to prepare... "in a time of peace."

Readers of this column will know that the issue of systemic risk, and in particular, the threat of serial contagion and failure of our industry in the face of a major earthquake in Vancouver or the Montreal/Ottawa corridor, is always top-of-mind at PACICC. Recently, I wrote in the *Globe & Mail*, that there was reason for hope, because the COVID-19 pandemic will have served to remind our Federal Government of the virtues of having an "in-case-of-emergency-break-glass plan" prepared in advance for tail risks. And in the last few weeks ,we have seen evidence that this is in fact the case. In 2021, we will be working closely with IBC and the Department of Finance to see if we can move this critical file forward toward final resolution.

There is no doubt that our industry is well-capitalized and reinsured to a high level against severe adverse events. But there is a level of quake above which some form of government backstop is simply the only option – as every other major developed nation with significant quake exposure has already determined. Just as in the case of pandemic, the scenario is remote. But it can happen. And on the day it does, our great country and all of its citizens will be deeply grateful that this industry and our regulatory partners found the time to "prepare for war in times of peace."

Wishing all of you and your friends and families the very best in this coming holiday season…stay safe!

Alister Campbell is President and Chief Executive Officer at PACICC