SOLVENCY MATTERS

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

PACICC

Issue 17 - April 2022

Insolvency protection for home, automobile and business insurance customers

Industry Events
(subject to confirmation)

April 14
PACICC Risk Officer's Forum Meeting

May 19
PACICC Emerging Risks Webinar - Climate Change Modeling

June 9
Cat IQ Connect

June 16-17
Canadian Institute of Actuaries Annual Conference

September 11-14
RIMS Canada Conference

September 15
PACICC Risk Officer's Forum Meeting

September 18-20
National Insurance Conference of Canada (NICC)

From the Desk of the President

Is PACICC "Resolution Ready"? - by Alister Campbell

Over the last several years, the topic of "resolution" has become increasingly central to the thinking of prudential supervisors of financial institutions around the developed world. Resolution can be simply defined as a process for the orderly exit of a distressed financial institution (FI) – this being particularly important for larger FIs which might be systemically significant or critical if they were to actually "fail" and enter into formal bankruptcy proceedings. Coming out of the Financial Crisis of 2007/08, much of the focus of supervisor thinking was on resolution solutions for banking (for obvious reasons). But the development and implementation of new tools, such as "bail-in bonds" and "living wills," has led many supervisors to conclude that the mechanisms are now in place to ensure more effective resolution of technically insolvent banking institutions. So, regulator attention is now turning to other pillars of the financial services sector – including insurers.

This January, the Financial Stability Board (FSB) – of which Canada is a member – published a new Practices Paper on "Resolution Funding for Insurers." It represents another significant advance in thinking around the mechanisms to facilitate more effective insurer resolution. The Paper includes a very practical discussion around the role of insurance guarantee schemes (or Policyholder Protection Schemes (PPS), as the FSB calls them) in providing a potential source for this funding. The paper also delves into the relative merits of "stand-alone" funds, prefunded PPSs (known as "ex ante" funds), as well as "ex post funds" which require mechanisms to recover any public funds used in resolution from private industry participants over a period of time into the future. The paper looks at specific examples in the U.S., Germany, Switzerland and Japan and concludes with an Appendix examining scenarios where a PPS can function as a "Bridge Institution." Fascinating reading – especially (maybe only?) if you are in the Office of the Superintendent of Financial Institutions (OSFI) or are the CEO of PACICC!

"We have to start by acknowledging that our circumstances are unique – with the situation also being rather different for banks vs. insurers."

So, what are the implications for Canada? Well, we have to start by acknowledging that our circumstances are unique – with the situation also being rather different for banks vs. insurers. In the case of Canada's banks, the resolution situation is quite clear – OSFI has full resolution powers and the Canada Deposit Insurance Corporation (CDIC – a Crown Corporation) – functions in effective lockstep, as a source of substantial "prefunded" liquidity ($6B and counting) – with additional funds committed via escalating backstops from the Federal Government. N.B. For purposes of this discussion, I am leaving aside another uniquely Canadian element of our federation – large, provincially supervised credit unions.

The insurance situation is not as clear. OSFI does have supervisory authority over roughly 90% of the P&C sector, but lesser "resolution" powers. And OSFI relies on PACICC – which also has some resolution authority, but only exercisable with a supervisor's permission – as the source of any required funding. Our small prefund of roughly $60M is buttressed by the power to assess our Industry Members 1.5% of DWP a year (roughly $1B at time of writing) – for as many years as are required. But if additional funds are required beyond this amount, there is currently no backstop mechanism in place with the Federal Government to address the potential funding gap.

There are certainly numerous imaginable scenarios where sums greater than PACICC's current capacity would be required. And this is not just an issue after the "mega-quake" discussed in our 2021 "Tipping Point" research paper. In 2020, we published research indicating that industry consolidation had now created 17 insurers so large that their failure – and resulting PACICC assessments – would render other PACICC Insurer Members technically insolvent. Clearly, successful resolution of any of these 17 largest insurers would be far better for all stakeholders, than placing any one of them into court-ordered liquidation under Canada's *Winding-up and Restructuring Act* (*WURA*).

Deeply conscious of the gaps in Canada's resolution framework for insurers, PACICC has been making a steady series of changes to ensure that we are more "resolution-ready." Resolution requires intervention before formal failure – almost certainly requiring entirely confidential exchanges among a range of parties. For banking, OSFI would work with Finance Canada and CDIC – but all dialogue would be within a single structure – the public service. In the case of insurance, this dialogue would need to include PACICC. But, as an industry-funded Corporation with a Board which includes a majority of Directors representing insurers, such an open and transparent dialogue regarding financial distress of a significant insurer would be problematic.

We started by changing our governance model so that our Board Chair is now always an Independent Director. Then, we created a stand-alone Committee of the Board – the Pre-Insolvency Regulatory Liaison Committee (PIRL) made up exclusively of our Independent Directors. We have now secured published Guides to Intervention and signed Memoranda of Understanding with OSFI (as well as the AMF, BCFSA, Alberta Finance and FSRA) which define PACICC's role in the stages before failure, and it is the PIRL Committee only which receives confidential information from regulators. Last Fall, our Board approved some technical changes to our Memorandum of Operation to ensure that we can access our Compensation Fund for required resolution actions. And, this Spring, at our Annual General Meeting, we will be expanding the size of the Board to create room for additional Independent Directors (with legal and investment banking skills) to complement the PIRL's current capabilities, and ensure that we can be a fully effective resolution partner for Canada's supervisors in cases of insurer distress.

But…is this enough? Thinking from a supervisor's perspective, the answer to this question might still be "No." Although PACICC's Board approved a "Resolution Protocol" last year, which defines the metrics by which our PIRL Committee would be guided, in choosing to invest Member funds in resolution rather than compensation after liquidation, this protocol remains untested. And there remains a very practical and unanswered question here – how would funds actually be advanced (a decision requiring a quorum of Industry Directors), when the situation (including potentially the identity of the distressed insurer) remains entirely confidential? Under our By-Law, it can't. Our comparable Canadian life insurance industry peer organization (Assuris) has solved this issue by moving to an entirely independent Board. Obviously, this would be an easier way for us to go…but giving up industry "control" over our own resolution/compensation institution would be a big step.

There are other potential gaps in our current model – beyond just governance – when viewed via a resolution lens. Assuris has its own OSFI-approved insurer on stand-by to act as a "bridge institution." PACICC does not currently have this tool in its toolkit…and perhaps we should? Also, with "only" $60M in the bank, and with no pre-negotiated stand by line-of-credit or reinsurance program to call upon, we may not have the firepower we need to respond in cases of larger insurer distress. Finally, of course, we don't have a pre-negotiated federal backstop (despite many years of actively advocating for such a sensible/essential financial services safety-net mechanism). But, it may be that Finance Canada would be more comfortable offering such a backstop if we addressed these other governance, capability and capacity issues first?

This June, the PACICC Board of Directors will be holding a first-of-its-kind, Strategic Planning Conference. A central question at that meeting will be this – Is PACICC truly "resolution-ready?" I am very much looking forward to that discussion. Our supervisory partners will be truly interested in our answer.

PACICC Priority Issues: Updates

Reinsurance Consultation

Results of the industry consultation conducted in 2021 on the merits of purchasing reinsurance, as a means of ensuring a more efficient and cost-effective response to future industry insolvencies, will inform discussion at the upcoming June 9 Strategic Planning Conference. The Consultation Paper that was distributed to Member Insurers had sought industry feedback on:

- Whether there was support for PACICC acquiring reinsurance – on behalf of the industry – to mitigate the impact of a natural catastrophe-triggered default of a Member Insurer
- The specific reinsurance option (coverage/price) successfully marketed by PACICC's broker Guy Carpenter
- Appropriate methods of payment for such a reinsurance purchase
- The trade-off between reinsurance purchases vs. capital levy payments to achieve an increased target level for the PACICC Compensation Fund.

While the Survey response was strong (100 PACICC Member Insurers, representing 88 percent of industry direct written premiums), there was mixed support for the purchase of reinsurance by PACICC. Members (particularly larger companies) support an increase in the Compensation Fund rather than reinsurance purchase, if a higher target is set by the PACICC Board. The industry does not support the specific reinsurance program detailed in the paper, for a range of reasons (price, quantum of coverage, stability of capacity). Members are prepared to fund a reinsurance purchase if required, and would prefer to do so via increased Assessment. They do not support drawing down income or capital from the current Compensation Fund. If a higher Compensation Fund target is set by the PACICC Board, Members would prefer capital levies to the purchase of reinsurance. Some Members support a reinsurance purchase and/or standby line of credit to cover the gap between the Fund and target, until such time as a series of capital levies boosted the Fund to a new, higher target.

PACICC staff is exploring alternative reinsurance scenarios and the costing of a standby line of credit, as an alternative to reinsurance and/or capital levy. This research will be presented at the June 9 Strategic Planning Conference for Board consideration.

"Permanent Priority" Issue
Mitigating Systemic Risk from Quake

PACICC staff continues to work with Finance Canada to address the largest single risk facing the Canadian P&C insurance industry – systemic contagion caused by a large earthquake. Last year's update to PACICC's P&C Industry Model (entitled "*How Big is Too Big? – The Tipping Point for Systemic Failure*") has been instructive to PACICC's ongoing work with the Federal Government. The update included detailed scenarios for an event in B.C. and Quebec, as well as sensitivity analysis examining the outcomes of five alternative public policy responses. The results identify the threshold beyond which the industry would be unable to adequately respond, which in turn is a compelling rationale for a Federal Government backstop mechanism as Canada's best failsafe option.

PACICC is working closely with both the Insurance Bureau of Canada (IBC) and the Institute for Catastrophic Loss Reduction (ICLR) on joint research, including the potential impacts on our Model from possible insurance "pool" designs advanced by ICLR and IBC. PACICC has also been liaising directly with the Bank of Canada, OSFI, the Canadian Deposit Insurance Corporation and the Canada Mortgage and Housing Corporation on this file. The Action Plan to address systemic contagion will be revisited annually, until such time as a Federal Government backstop mechanism has been secured and is in place.

Priority Issue – 2021
Contingency Planning and Desktop Simulations

PACICC's 2021 Priority was to develop Contingency Planning and Desktop Simulation exercises with Regulators. Proper emergency preparedness requires testing of response procedures through insolvency simulation exercises, to ensure that processes and procedures function as intended when the call for help comes.

PACICC is actively engaged with OSFI on a comprehensive desktop simulation exercise. A fictional "troubled" insurer has been created, complete with a package of supporting data (e.g. OFSI Risk Assessment document, full P&C-1 information, Appointed Actuary Report and Own Risk and Solvency Assessment). Lessons learned from the simulation will be presented to the PACICC Board in an interim report at its April 7 meeting.

Earlier, PACICC and AMF staff worked to identify a series of roadblocks that needed to be resolved before a successful simulation could be conducted. The AMF Guide to Intervention was updated. Use of Quebec's winding-up option (contained in AMF's Intervention Guide) vs. the federal *Winding-Up and Restructuring Act* (*WURA*) was clarified – Quebec law will apply for every regulatory action up to insolvency, including possible "resolution" scenarios. Once the insurer is deemed to be insolvent, however, the federal *WURA* will apply. The wording of PACICC's Memorandum of Operation was clarified to enable PACICC to contribute industry funds via the existing Compensation Fund or the Assessment mechanism, prior to liquidation. As well, PACICC revised its model Winding-Up Order, and developed a second version that is customized for the Quebec legal environment.

As a result of the work on contingency planning, PACICC Members will be asked to consider a Special Resolution at the April 7 Annual General Meeting which proposes an expansion of the size of the PACICC Board (to 15 members, up from 12 members, with two additional non-Industry Directors and one Industry Director), to facilitate enhanced engagement with industry regulators and to provide additional Board member skill sets and attributes to assist in resolution scenario management. This proposed change to the PACICC By-law was approved by the PACICC Board (November 2021) and by the Canadian Council of Insurance Regulators (February 2022).

Priority Issue – 2022
Review the Scope and Scale of PACICC's Compensation Fund

PACICC's Priority Issue for 2022 is to complete a formal review of the scope, scale and mandate of the Compensation Fund. The Compensation Fund was established in 1997 to ensure the Corporation's capacity to respond immediately to the needs of affected policyholders after an insolvency, without any delay while waiting for required funds to be collected via a PACICC General Assessment. The Compensation Fund's initial target of $30 million was collected through industry capital levies ($10 million a year, from 1998-2000), equal to 0.15% of each Member's net written premium during 1997. The Fund, managed by CIBC Asset Management and overseen by PACICC's Audit & Risk Committee, is governed by a strict Investment Policy focused exclusively on fixed income securities, with a high priority placed on security and liquidity. Its current market value is just over $59 million.

PACICC has not accessed the Fund since its inception. Only the PACICC Board can authorize Compensation Fund use. Any funds used must be reimbursed via an Assessment of Member Insurers, as per PACICC's Memorandum of Operation.

PACICC is liaising with Members and other industry stakeholders on the following questions:

1. What is an appropriate size for the PACICC Compensation Fund?
2. What sources of financing are available to PACICC to collect this amount?
3. How can PACICC best leverage the funds in the Compensation Fund to achieve its mission?

1. What is the appropriate size of funding needed by PACICC?

In 2020, PACICC commissioned a report from Eckler Ltd. to assess whether the current Fund was large enough to adequately achieve its original objective (rapid refund of policyholders' unearned premiums) in the case of a failure of a PACICC Member Insurer. The report found that the current Fund could provide unearned premium rebates in the case of the insolvency of 108 of the smallest PACICC Member Insurers. The current Fund is not large enough to rebate unearned premiums for policyholders at PACICC's 70 largest Member Insurers, should any of them default.

With the update to its P&C Industry Model last year, PACICC identified how large its Compensation Fund would have to be in order to avoid a Special Member Assessment for 12 months after a mega-catastrophe event, such as an earthquake. For an event generating losses of between $30 billion and $35 billion, the Fund would need to total $225 million in order to avert an urgent Special Assessment, and thus be in a financial position to materially mitigate the risk of systemic contagion.

PACICC is undertaking several initiatives to determine an appropriate size for its Compensation Fund, including:

- Researching best practice in other organizations in Canada's financial services sector
- Documenting best practice among other members of the International Forum of Insurance Guarantee Schemess
- Liaising with Finance Canada and IBC to ensure that any changes to the Compensation Fund do not impede efforts to secure a Federal Government backstop mechanism to mitigate against the risk of systemic contagion after a tail-risk event
- Modeling the amount needed to pay for claims resulting from potential future defaults.

PACICC will provide a recommendation to the Board on a proposed new Fund target prior to the Board's June 9 Strategic Planning Conference.

2. What sources of financing are available to PACICC to collect this amount?

Once the Board decides upon the required size of the Fund, PACICC will seek to determine the best way to obtain this amount. Issues for consideration include:

- Achievement of the new target through a combination of reinsurance or lines of credit
- Impact of any potential changes on PACICC's tax status as a not-for-profit entity
- Treatment of Member Insurer contributions as capital for purposes of the MCT (as is done in certain other international jurisdictions).

3. How can PACICC best leverage the funds in the Compensation Fund to achieve its mission?

Is PACICC making the best use of its capital (i.e. the Corporation's $59 million Compensation Fund)? PACICC staff will investigate how the Fund can best be used to advance the Corporation's mission, including:

- As collateral, allowing PACICC to issue a guarantee?
- As a potential source of funds for reinsurance purchases?
- As the source of funds for capitalization of a PACICC Corp (a bridge insurer)?

PACICC staff will provide a detailed overview of recommendations at the Strategic Planning Conference in June. Formal proposals will be prepared for Board consideration at the November 3 Board Meeting.

*Priority Issue – 2023**
*To Be Determined by the PACICC Board in June 2022

PACICC's Priority Issue for 2023 and beyond will be determined through this discussion at the Strategic Planning Conference in June. PACICC staff will then develop a 2023-2025 Strategic Plan for the Corporation that includes these points, for consideration by the Board at its November 3 Meeting.

Emerging Issues

Not Your Maytag Repairman - by Stephanie Greer

I sometimes hear PACICC and Assuris described as being "like the Maytag repairman," sleepily waiting for the rare call that an insurer has failed. It is certainly true that Canadian insurers rarely fail, but we do much more to protect policyholders and serve our members than wait around for a failure!

Borrowing the Coast Guard's motto, what we really are is "*Always Ready.*"

We have deep expertise in insurance resolution and are focused on being ready to deal with a failure of any member life insurance company. We understand and anticipate industry-wide and company-specific scenarios that could cause a member to fail. We work closely with regulators and with partners like PACICC and Canadian Deposit Insurance Corporation (CDIC) to support the overall soundness of the financial system and protect Canadians.

Part of being *Always Ready* is having the playbooks, tools, and capabilities to respond quickly if issues arise.

Our playbooks incorporate hard won knowledge and experience gained from past insolvencies but also crises, like the real estate bubble in the 90s, the Global Financial Crisis and more recently the COVID-19 pandemic, as well as the use of cutting-edge financial tools, like swaps and stop-loss reinsurance instruments, to support a resolution.

Because of the long-term nature of life insurance, the most appropriate resolution option is usually to transfer the policies to a solvent life insurer, instead of paying cash compensation or winding down the company. This court-driven restructuring process maintains the most value of the troubled company and, in our past experience, has proven to be the lowest cost solution.

While we were very successful with the past insolvencies, the next one will likely be different. The traditional court process works well, but the insolvency profession has evolved, and we are turning our focus to more modern restructuring practices.

Assuris has early intervention powers to support a transaction outside of the traditional court process, which may be a faster solution. We know from experience that moving quickly to resolve a failure is the best way to protect policyholders from loss, reduce the cost of failure for the industry, and maintain the public's confidence.

A great example of our unique capabilities is CompCorp Life, Assuris' fully licensed life insurance subsidiary. CompCorp Life can act as a bridging institution, giving us a wide array of options and tools for resolving a failed insurer. We used CompCorp Life in past insolvencies to provide reinsurance to the purchasing insurer who had

Stephanie Greer, Executive Vice President, Risk & Resolution, Assuris

concerns with the value of the assets supporting particular blocks of business. This allowed more time to work out troubled illiquid assets and to avoid an undervalued fire sale in liquidation.

Being *Always Ready* also means regularly testing our playbooks, tools, and capabilities, often in concert with our regulatory and other partners, through simulations and tabletop exercises. The exercises are designed to identify gaps in our playbooks and ensure that we will be ready to deal with the resolution of a troubled company.

Another component to ensure we are *Always Ready* is to have the appropriate funding mechanisms in place. Our industry-funded assessment system is designed to limit contagion by limiting the amount we can collect from the industry in a year. Assuris recently worked with the life insurance industry to increase our liquidity fund to $200 million to ensure we can meet immediate protection and avoid disruption to policyholders.

A brief summary of the Assuris assessment system is included in Table 1.

Table 1:

	Purpose
Specific Assessment	• To cover the cost of protecting policyholders. • The maximum is 0.5% of that member's solvency buffer in Canada annually.
Loan Assessment	• To secure cash needed in excess from what is available from other sources such as the specific assessment and the liquidity fund. • Used as an interim measure to meet the short-term funding needs in connection with a troubled company. • The loans outstanding will not exceed 3% of that member's solvency buffer in Canada.
Extraordinary Assessment	• Implemented when the specific and loan assessments are inadequate to cover the cost of protecting policyholders. • Based on new business premiums from life, health and wealth management business.
Liquidity Fund	• A $200 million fund invested in high-liquidity low-risk assets to supply immediate liquidity needs.

Canadian policyholders and the members of PACICC and Assuris can take comfort knowing that we are here, always vigilant, and *Always Ready*. We've got your back.

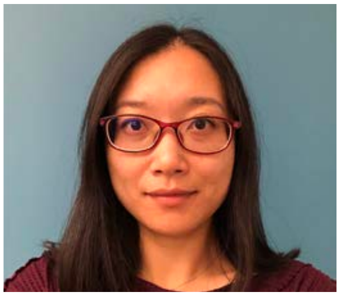
About Assuris

Assuris' mission is to protect policyholders if their life insurance company should fail. We are the not-for-profit compensation association designated by Canadian regulators and funded by the life insurance industry. We protect policyholders from loss of benefits in the unlikely event that a member company fails by facilitating a quick resolution so their benefits will continue to be honoured.

Solvency Analysis

As Good as it Gets

by Zhe (Judy) Peng and Grant Kelly

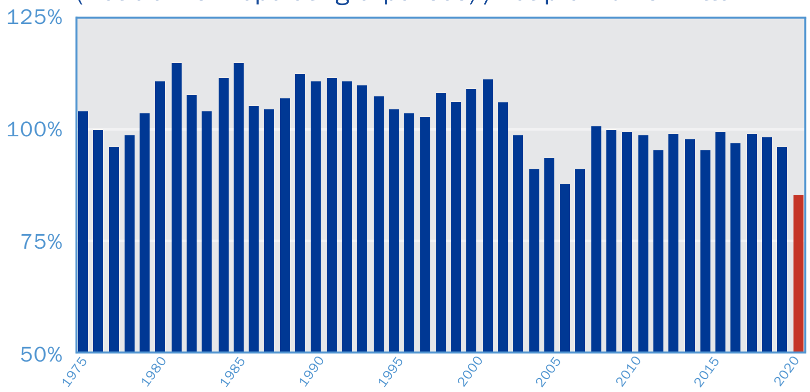


2021 was the third most profitable year for Canada's P&C insurance industry since 1975. Only in 2003 and 2004 had the industry posted a return on equity (ROE) higher than the 17.0 percent recorded in 2021. For those monitoring industry solvency, this is very positive news. It allows insurers to grow their base of capital and ensures that they have resources to pay claims.

The positive underwriting results more than offset a $1.3 billion decline in the industry's investment income. The combined ratio measures the total of claims paid and expenses compared to premiums collected. The 2021 industry combined ratio was 85.2 percent. This is the lowest combined ratio ever recorded by Canada's insurance industry, beating the previous best of 87.5 percent recorded in 2006.

P&C Combined ratio

(Net claims + operating expenses) /net premiums written

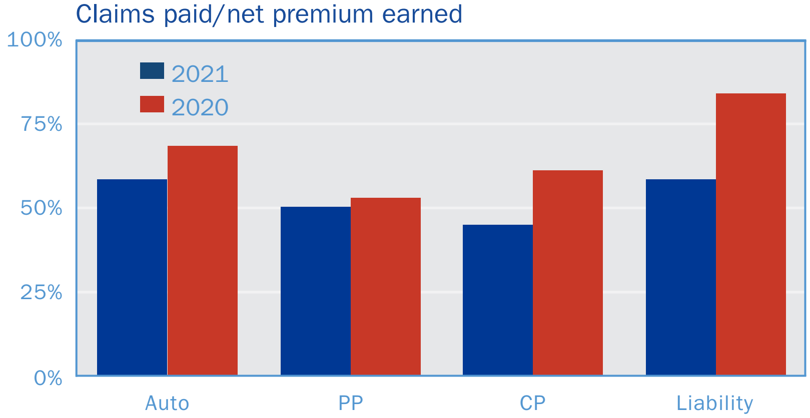


Lowest combined ratio (85.2%) EVER reported in PACICC database. Beat the previous record of 87.5% in 2006.

Source: PACICC based on data from MSA Research

Loss ratios by line

Claims paid/net premium earned



Strong underwriting results in every line of coverage and across Canada. Only line of coverage reporting unprofitable loss ratio, at the industry level, was Cyber.

Source: PACICC based on data from MSA Research

The positive underwriting results were evident in all segments and parts of Canada. Loss ratios measure claims paid over premiums, and exclude expenses. A lower number means that the results were more profitable for insurers. The loss ratio for Auto insurance was 58.4 percent in 2021. The comparable figure for 2020 was 68.8 percent. The loss ratio for Personal Property insurance was an even better 50.7 percent in 2021, improving from the already strong 53.3 percent reported in 2020.

Underwriting results were also very strong in Commercial lines. The loss ratio for Commercial Property was 45.4 percent in 2021, compared to 61.6 percent in 2020. Liability coverages also appear to be profitable. The loss ratio for Liability insurance was 58.9 percent, compared to 84.0 percent last year. The only type of Liability coverage that reported losses remains Cyber coverage, where the loss ratio was 105.3 percent. This means that insurers paid $1.05 cents in claims for every dollar that they collected in premiums.

In the past, this level of profitability has not proven to be sustainable for P&C insurers. Over the past 45 years, P&C insurers have reported ROE greater than 15 percent on 10 occasions. These years of high profitability generally appear in clusters (1977 to 1978; 1986 to 1987; and 2004 to 2006). The average ROE in these years of peak profitability was 16.8 percent. But, every single time that insurers have reported such aboveaverage profits, competitive forces have quickly acted to cut the industry's ROE in half – to an average of 7.4 percent – within two years. The high ROEs reported by insurers in 2020 and 2021 are likely to follow this same historical pattern.

2021 Financial Year Results

($ millions)	2021	2020	Percentage Change
Direct Premiums Written (DPW)	$75,156	$69,268	8.5%
Net Pemiums Earned (NPE)	$62,937	$58,215	9.1%
Net Claims Incurred	$33,826	$37,780	-10.5%
Operating Expenses	$19,812	$18,019	10.0%
Underwriting Income	$9,498	$2,617	262.9%
Net Investment Income	$2,804	$4,153	-32.4%
Net Income	$9,504	$5,396	76.1%
Combined Ratio	85.2%	95.9%	
Net Loss Ratio	53.7%	64.9%	

Select Solvency Indicator Ratios

($ millions)	2021	2020
Average Equity	$55,868	$49,890
Return on Equity (ROE)	17.0%	10.8%
Return on Investment (ROI)	2.7%	4.0%
Comprehensive ROE	17.8%	13.2%
Comprehensive ROI	3.1%	5.2%
MCT Ratio (Capital Available/Capital Required)	265.6%	255.5%
BAAT Ratio (Net Assets/Capital Required)	305.4%	305.6%

Source: MSA Research as of March 14, 2022.

Every Insurer is Different

by Zhe (Judy) Peng and Grant Kelly

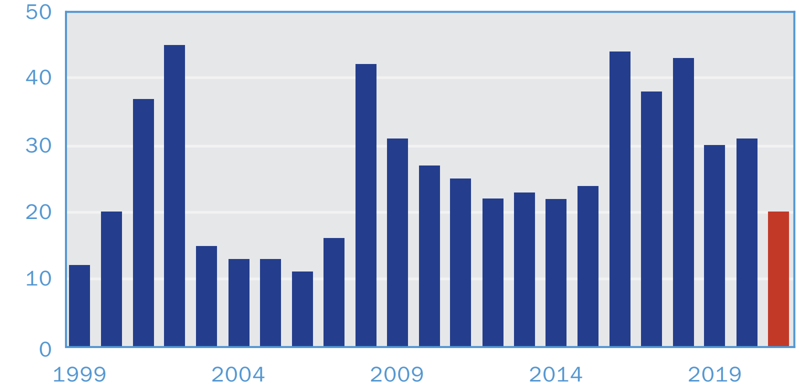
PACICC's 170 Member Insurers compete to provide insurance to Canadian home and business owners and drivers. Competition means that, while the industry reported a very profitable 2021 on average, results vary significantly at the individual company level. Profitable insurers use their earnings to strengthen their financial health and support growth, and thus trends in earnings are the primary indicator of future capital adequacy. When firms employ unsuccessful strategies and are consistently unprofitable, they must alter their strategies and/or processes if their owners wish to continue to put their capital at risk and remain in the market.

The increasing capital base of Canada's P&C insurers, enabled by the strong overall profitability of the past year, means that the insurance industry is well-positioned to play a positive and productive role in helping to facilitate Canada's post-pandemic economic rebound during 2022 and beyond.

PACICC's focus is on assessing the solvency of Canada's P&C insurers, which dictates that its analysis will bias toward caution and pessimism. And so, we note that while most insurers reported profitable results, it was not the result for every insurer. In fact, there were 20 P&C insurers that reported losses in 2021. Such years of underperformance are a normal part of a competitive marketplace. The good news is that fewer insurers reported losses than the average over the past five years – the five-year average is 32 unprofitable insurers each year. The results in 2021 were also well below the peak of 43 insurers that reported losses in 2018.

Insurance is the business of employing imperfect science in a good faith effort to accurately quantify risk. Insurers can often be wrong and experience a bad financial year. When this happens, a company will dip into its capital base to meet its financial

Number pf P&C insurers with operating losses

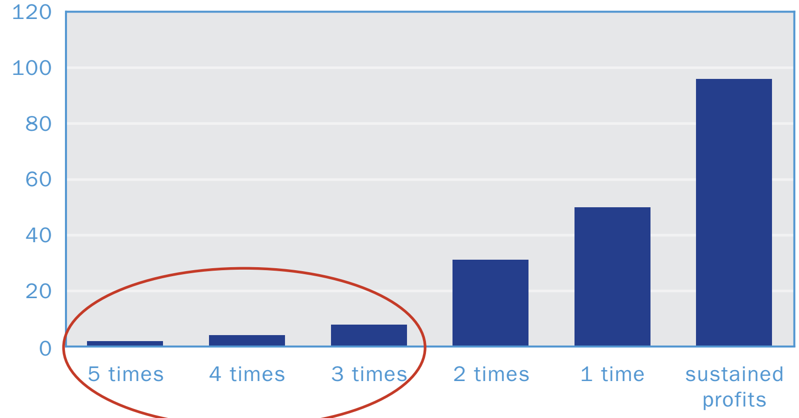


In spite of one of the industry's best financial years, 20 P&C insurers reported losses in 2021.

Source: PACICC based on data from MSA Research

Number of times an insurer has reported losses over past 5 years

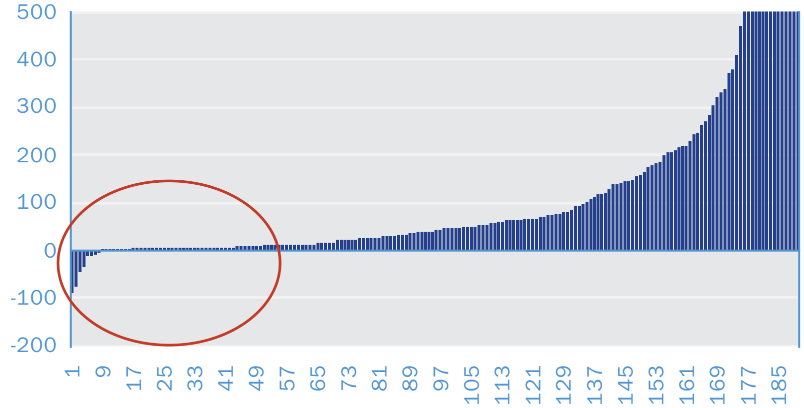
Number of PACICC Members, 2017 to 2021



Source: PACICC based on data from MSA Research obligations, or find more capital from outside the company to replenish its depleted supply. PACICC becomes concerned when insurers report multiple years of losses. Over the past five years, two insurers have reported losses every single year. Another four companies have reported losses in four of the past five years. Eight insurers have reported losses in three of the past five years. These are some of the companies that PACICC watches more closely.

Capital generated by insurers over the past 5 years

$ million



Source: PACICC based on data from MSA Research

The magnitude of the "bad year" also matters. Sometimes a bad year can be a small blip on an insurer's otherwise strong track record of success. Other times, one bad year may be a massive problem on its own. PACICC examined the amount that each insurer earned (in total) over the past five years because, over such an extended time period, it would be reasonable for investors to expect positive returns on their money. In fact, our analysis found that there were 16 insurers that lost money for their investors over the past five years. And another 32 insurers reported marginal positive cashflows (meaning returns less than the rate of inflation) for their investors over the same period.

Thankfully, these losses have not translated into an insolvency. PACICC is in regular communication with Canada's solvency regulators, and the capital ratios of the companies competing in the market remain strong. In fact, overall, the capital base of Canada's insurance industry has never been larger. At PACICC, we live with the reality that insolvencies don't happen on average. They happen to individual insurers. Our monitoring work continues.

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.

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.

2022 Forum Meeting Dates:

Thursday, April 14

Keynote:	**Jacqueline Friedland**, P&C Insurance Group, OSFI
Discussion Panel 1:	Model Risk **Donna Sirmons** (Florida Hurricane Catastrophe Fund) and **Dr. Jack Nicholson** (Catastrophic Risk Consulting)
Discussion Panel 2:	Operational Risk / Operational Resilience **Katherine Macpherson** (E&Y Canada), **Michael Auret** (PwC Canada) and **Tracy Mann** (Definity Financial Corporation)

Thursday, September 15

Keynote:	CEO Perspective on the Risk Function
Discussion Panel 1:	Inflation Risk
Discussion Panel 2:	Human Resources and Talent Management

November* (Date to coincide with OSFI's Risk Management Seminar)

Keynote:	Highlights from PACICC Strategic Planning Conference
Discussion Panel 1:	Class Action Litigation (Status/Update)
Discussion Panel 2:	Supply Chain Risks

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.

2022 Emerging Risk Webinar Dates:

Thursday, May 19

Topic: Climate Change Modeling

Thursday, October 20

Topic: Privacy Compliance and Reputational Risk

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.

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