Solvency Matters

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

PACICC

Issue 19 - September 2022

Insolvency protection for home, automobile and business insurance customers

Industry Events
(subject to confirmation)

October 20
PACICC Emerging Risks Webinar - *Why Insurers Still Fail – Mapping the Road to Ruin*

November 1-2
Financial Protection Forum

November 16
PACICC Risk Officer's Forum Meeting

February 7-8, 2023
CatIQ Connect

Solvency Matters Satisfaction Survey

We would like to know your thoughts on our Quarterly newsletter. Please follow the link below to fill out a short satisfaction survey.

Link:
https://www.surveymonkey.com/r/WMNH268

NEXT

From the Desk of the President

PACICC 2.0 – Enhancing Capacity and Expanding Capbilities

- by Alister Campbell

This June, the PACICC Board of Directors held a first-of-its-kind, Strategic Planning Conference. Central to our discussions was a key question – Is our Industry Resolution Ready? And, our Board concluded that the answer was…Not Yet! Our Board concluded that there was more work to do in order to enhance what OSFI Superintendent Peter Routledge calls "Canada's resolution infrastructure." As a result of these important discussions, PACICC staff received a Board mandate to take two big steps between now and year-end.

- Enhancing our Financial Capacity: We will be working to secure a Standby Line of Credit – for up to $250M – to complement and supplement our existing emergency financial capacity in resolution and liquidation scenarios. Our modelling indicates that such a sum – in tandem with our current Compensation Fund – will be adequate to address short-term emergency funding needs in scenarios involving all but the top-15 insurers
- Expanding our Resolution "toolkit": We will be initiating conversation with OSFI regarding the establishment of a federally supervised "Bridge Insurer," to ensure that we have the infrastructure fully in place to tackle a broader range of resolution scenarios (including those associated with distress among any one of the insurers in the top 15) and to align Canada more firmly with international best practice.

Over the past several years, PACICC has been examining a number of different ways to expand our short-term financial capacity – without unnecessarily encumbering Member Insurers with large increases in annual Assessments. In this process, we evaluated a range of options, and engaged in exhaustive industry consultation regarding both reinsurance purchases and/or a resumption of capital levies. After deliberation, and with indicative pricing available regarding the potential costs of a standby credit facility, our Board has concluded that an annual engagement fee for such a liquidity facility represents the most cost-effective option for PACICC and the industry.

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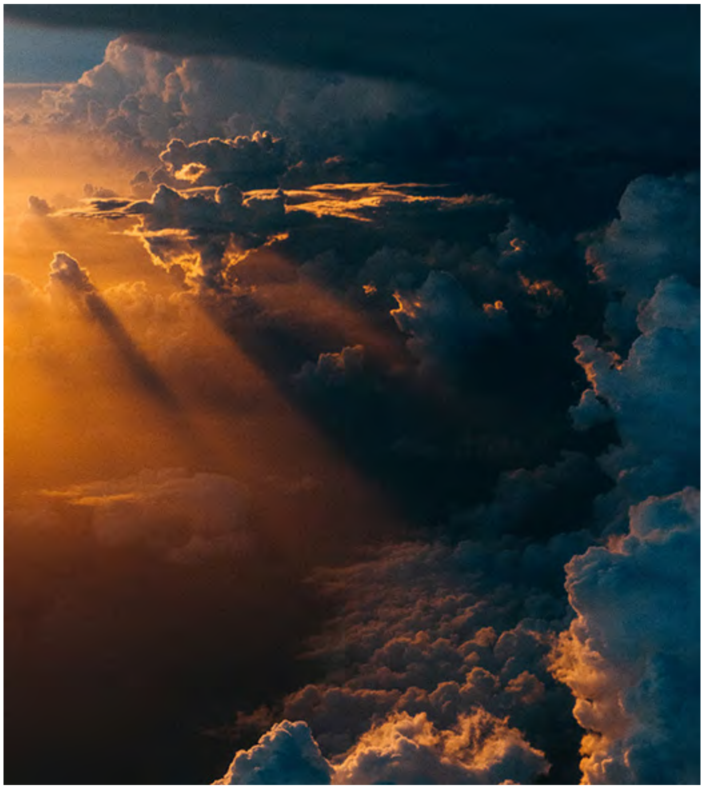
In the case of the Bridge Insurer initiative, we included this potential addition to our resolution capabilities for consideration during our comprehensive industry consultation in 2020 around "Expanding PACICC's Resolution Toolkit." The idea piqued interest then, and more fulsome discussions with key stakeholders in the interim, during the run-up to our Strategic Planning Conference, confirmed the attractiveness of this idea for a range of distress/ crisis scenarios. In the discussions with our Board, we also drew from the knowledge that our peer organization on the life insurance side (Assuris) long ago incorporated such an entity ("CompCorp Life") under OSFI supervision, and was able to share with us useful insights into the relatively low run-rate costs of having this asset in their arsenal. Based on instructions from our Board, we have now initiated dialogue with OSFI regarding this prospective enhancement to our resolution infrastructure.

Alister Campbell is President and Chief Executive Officer at PACICC



These two proposed initiatives will both necessarily involve some increased costs for PACICC, and these costs will of course have to be borne by our Members, via an increased annual Administrative Assessment. But, if these tools are designed appropriately, we believe the costs will be no more than incremental, and will be far outweighed by the benefits that the new tools will deliver if and when we are called upon to respond in a future crisis situation. The Board will be meeting again this November to review a detailed three-year Budget and Plan, incorporating our best estimate for the expected future costs of these two initiatives.

Insurance exists for a reason. Despite best efforts, bad things can and do happen. That is exactly why PACICC is forward-looking in its approach, continuing to focus on how best to prepare the industry for worst-case scenarios. When the worst case next becomes a hard reality in our industry and for one of our Members, PACICC's important groundwork will help ensure that our industry is ready to answer the call.

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PACICC Priority Issues: Updates

"Permanent Priority" Issue

PACICC staff continues to work with all stakeholders 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*") clearly identified the threshold beyond which the industry will not be able to respond adequately to such a major event. The analysis, which included detailed scenarios for such an event in B.C. and Quebec, as well as sensitivity analysis regarding the outcomes of five alternative public policy responses, provided a compelling rationale for a Federal Government backstop mechanism as Canada's best failsafe option.

This past year, PACICC has worked closely with both the Institute for Catastrophic Loss Reduction (ICLR) and Insurance Bureau of Canada (IBC) on possible insurance "pool" designs as well as the structure of "backstop mechanisms" that these various pool designs would require. PACICC has also been liaising on this file with the Bank of Canada, OSFI, the Canadian Deposit Insurance Corporation and the Canada Mortgage and Housing Corporation. The PACICC Action Plan to address systemic contagion will be revisited annually, until such time as a Federal Government backstop mechanism has been secured and is finally in place.

Priority Issue – 2021

Contingency Planning and Desktop Simulations

Proper emergency preparedness requires testing of response procedures, to ensure that processes and procedures function as intended when the call for help comes. To ensure that PACICC is suitably prepared to respond in insolvency scenarios, we actively engaged with the AMF and OSFI in separate and comprehensive desktop simulation exercises during 2021. Unforeseen scheduling conflicts and dislocation caused by the COVID-19 pandemic meant that work on the OSFI desktop exercise extended well into 2022. In retrospect, the additional time proved to be of tremendous value, as we were able to successfully run through the entire process – from early warnings of "distress"…all the way to liquidation. To support this initiative, a fictional "distressed" insurer was 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). An exchange of "Lessons Learned" Reports will be held with OSFI in late September. PACICC's Pre-Insolvency Regulatory Liaison (PIRL) Committee will meet in October to review all of the desktop simulation findings, and will deliver a final report to the PACICC Board for review at its November 3 meeting.

Priority Issue – 2022

Review the Scope and Scale of PACICC's Compensation Fund

PACICC has made strong progress on its Priority Issue for 2022 – completing a formal review of the scope, scale and mandate of the Compensation Fund. The Fund was initially established in 1997, to ensure PACICC's capacity to refund unearned premiums of affected policyholders following an insolvency without delay, while arrangements are being made for a General Assessment to collect additional required funds. The Fund is managed by CIBC Asset Management, overseen by PACICC's Audit & Risk Committee, and governed by a strict Investment Policy focused exclusively on fixed income securities (with high priority placed on security and liquidity). Its current market value is just over $57 million.

In the Spring, PACICC sought input from Members and other industry stakeholders on the Fund in order to inform discussion at the Board's Strategic Planning Conference in June, and to assist the Board in establishing Priority Issues for the Corporation for 2023-2025.

- **Scale –** A 2020 report from Eckler Ltd. found that the current Compensation Fund would not be large enough to rebate unearned premiums for policyholders, should any of PACICC's 70 largest Member Insurers default. Additional perspective on Fund adequacy was provided via other PACICC research. Our 2020 Why Insurer's Fail *Tipping Point* paper indicated that, for an earthquake generating losses of between $30 billion and $35 billion, a Fund of $225 million could potentially avert an urgent Special Assessment, and thus materially mitigate the risk of systemic contagion. PACICC also examined best practice in other organizations in Canada's financial services sector and took particular note of the Canadian Investor Protection Fund (CIPF), which utilizes a "tower" approach incorporating a pre-fund, a standby line of credit, as well as reinsurance to ensure adequate financial capacity. Finally, PACICC engaged in a review of funding mechanisms among other members of the International Forum of Insurance Guarantee Schemes.
- **Scope –** Stakeholder input was sought on other issues related to the size of the Fund, including: achievement of the new target through alternative reinsurance scenarios and the costing of a standby line of credit, as an alternative to reinsurance and/or capital levy; impact of any potential changes on PACICC's tax status as a not-for-profit entity; and treatment of Member Insurer contributions as capital for purposes of the Minimum Capital Test (MCT), as is done in certain other international jurisdictions.
- **Mandate –** Stakeholders were asked how the Compensation Fund could best be used to advance PACICC's mandate, including: as collateral, allowing PACICC to issue a guarantee; as a potential source of funds for reinsurance purchases; and as the source of funds for capitalization of a Bridge Insurer (PACICC Corp).

The results of this consultative work were shared as a key input for deliberation at our Board's Strategic Planning Conference in June (see below).

Strategic Planning Conference

PACICC's first Strategic Planning Conference, held in June of this year, enabled Board members to confirm PACICC's Priority Issue for 2023, and to identify additional Key Priorities for the period 2023-2025. Based on the guidance from our Board and the broad range of issues facing the Corporation, PACICC will need to move on from its tradition of focusing on only one "Priority Issue" each year. The complexity of some of the public policy issues faced means that some cannot be neatly resolved in a single calendar year as they have varying timeframes, depth, complexity and inter-connectedness. Reality also dictates that many need to be acted upon in the near term, rather than being put off for future years. Finally, some priorities (the Federal Backstop Mechanism being a good example) are contingent on third-party decisions that are outside of PACICC's locus of control. PACICC staff is currently developing a 2023-2025 Strategic Plan for the Corporation that covers the following priorities, for consideration and approval by the Board at its November 3 meeting:

Priority Issue – 2023
Coverage and Benefits Review

In 2020, PACICC committed to the Canadian Council of Insurance Regulators (CCIR) that it would review its coverage and benefits at least once every five years, with the next review occurring within three years. Consequently, at its November 3 meeting, the PACICC Board is expected to confirm this matter as the Corporation's Priority Issue for 2023.

The scope of the review would again include: extent of coverage, claim limits, return of unearned premiums and the threshold for commercial coverage eligibility. Some regulators have suggested that PACICC should adopt regional benefit limits (i.e. higher limits in certain provinces to reflect higher construction costs). PACICC will base its review on the three guiding principles employed earlier – Fairness; Transparency/Clarity; and Modernization.

Other Key Priority Issues

Resolution Infrastructure

PACICC's Board will consider other possible Priority Issues in November that seek to build out and enhance the industry's resolution infrastructure.

a) Bridge Insurer

In 2020, PACICC Member Insurers confirmed that they would be comfortable if PACICC pursued alternatives to liquidation under defined circumstances. Both Assuris and PACICC have the ability to provide capital, loans or guarantees to recapitalize a distressed insurer in Canada. Assuris has a Bridge Insurer (CompCorp Life) that is regulated by OSFI, to assist with troubled insurers. However, at present, PACICC does not have such a Bridge Insurer capability in place. Strong support was shown for the establishment of a PACICC Bridge Insurer in the most recent survey of stakeholders (including 20 leading/representative Member Insurers, as well as CCIR, IBC and Insurance Brokers Association of Canada). At our Strategic Planning Conference in June, the PACICC Board asked that staff initiate a process for establishing a Bridge Insurer, in collaboration with OSFI, in order to enhance the Corporation's resolution capabilities. PACICC will examine: steps required; timelines; costs/benefits; funding (pledge of assessment powers); required corporate governance changes; and implications for the PACICC Board. PACICC will research historical information regarding the establishment of Assuris's CompCorp Life (timeline, start-up capital required, etc.). If approved, PACICC's Bridge Insurer would be established through a Special Resolution of the Board, which would be presented to Members for ratification at an Annual General Meeting of Members.

b) Increased Financial Capacity

It has been concluded that PACICC's current Compensation Fund is not adequate in the case of the failure of any of the top-70 insurers in Canada. At the Strategic Planning Conference, the Board concluded that PACICC should establish a new "target level" of $300 million for its short-term financial capacity. However, the Board also concluded that there was no compelling business case for generating the required increase in financial capacity via capital levies or through the purchase of reinsurance. Instead, PACICC will seek to increase its financial capacity via a standby line of credit facility. PACICC is now approaching leading financial institutions in Canada and the U.S. with a request for an expression of interest regarding the provision of a $250 million standby line-of-credit facility. The objective is to present a recommended provider (or panel of providers), with pre-negotiated terms and conditions (e.g. tenor, drawn pricing, standby fee, set-up fee and covenants/requirements), to PACICC's Board when it meets in November. The Board will also consider the most appropriate means for ensuring that the costs for this added capacity are borne fairly across all Members.

Emerging Issues

Fixed Income in 2022 – Where do we go from here?

- by Michael Cook

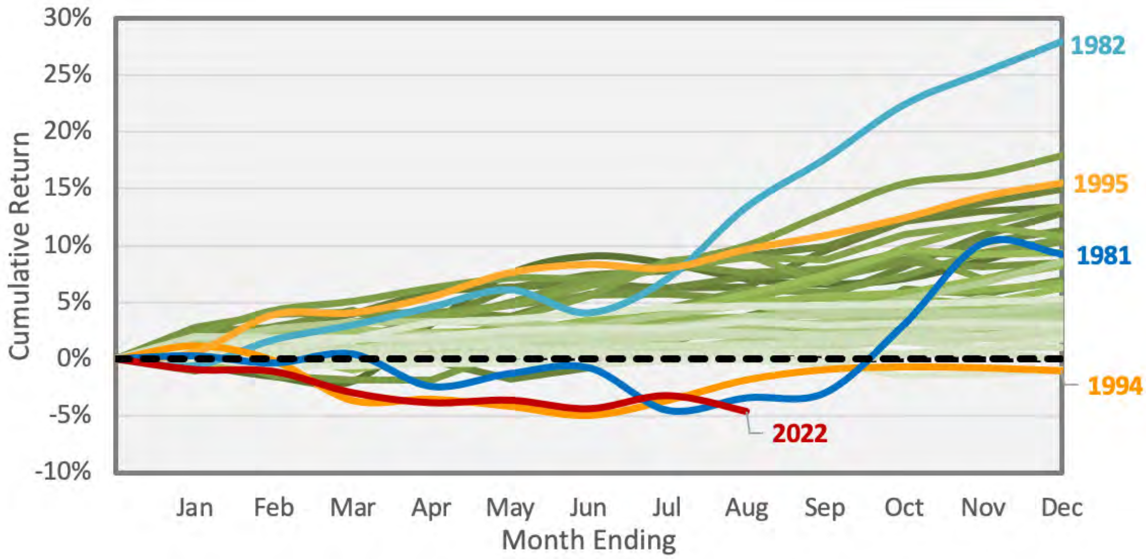
2022 has not only been a volatile year for investors, it has been an historic year for bond investors. Companies relying on steady and reliable returns are likely looking at their portfolios a little bit closer when thinking about the next year. This article will attempt to shed some light on the past year and what steps can be taken to achieve portfolio objectives.

The majority of property and casualty (P&C) asset exposure is in shorter maturity bonds, so we will focus our analysis on this segment, but similar trends exist in the Mid and Long portions of the curve.

How bad has 2022 been so far? When looking at the YTD return data for the FTSE TMX Short-Term Bond Index going back to 1980, 2022 has seen the worst returns in the entire 43-year period to the end of August.

Chart 1 – YTD Returns – Short Universe

1980-2022



Source: FTSE, CIBC Asset Management

With central banks battling inflation seemingly for the first time in decades, it is no mystery how we've ended up with these performance numbers. Yields have risen and the fear of a looming recession has pushed credit spreads wider.

"Don't Panic" – Douglas Adams

The negative performance investors have experienced does have a silver lining. The yield on the FTSE TMX Short-Term Index has risen from 0.5% in January 2021 to over 4% as of August 2022. The Index hasn't had yields this high since pre-Global Financial Crisis (Chart 2).

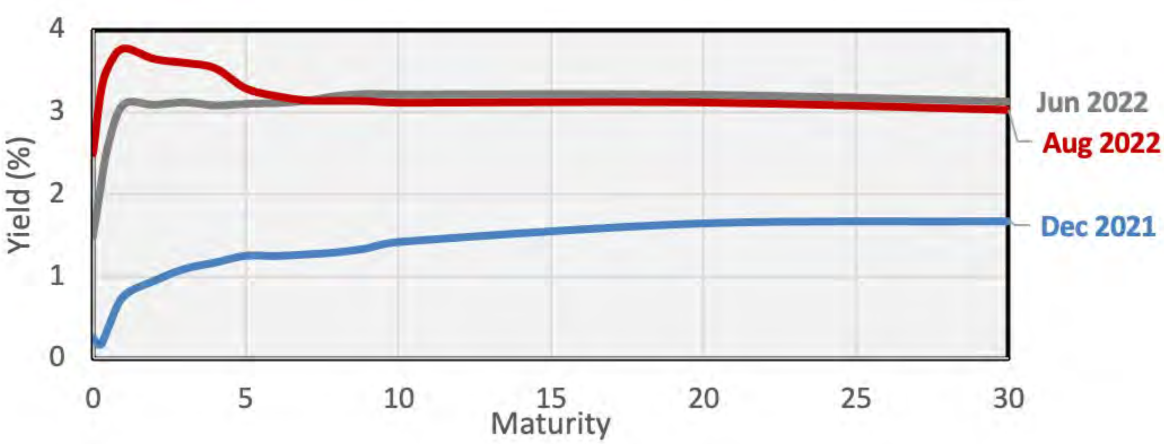
Michael Cook, Vice President, Client Relations & LDI Client Portfolio Manager, CIBC Asset Management, Inc.

Chart 2 – Short-Term Universe Yield

Source: Bloomberg

We are starting to see the impact from central banks falling behind inflation (Chart 3). For the first half of 2022, hikes in overnight rates caused the whole yield curve to rise. Since June, we have seen the short end of the curve rise as central banks talk up higher rates, but the mid & long end falling slightly as expectations for rate cuts as the result of a recession &/or inflation normalizing over the next few years become priced in.

Chart 3 – Government of Canada Yield Curves



Source: Bloomberg

While this turbulence has not been a pleasant ride for bond investors, portfolios today are much better positioned for providing returns going forward, compared to when yields were half of one percent.

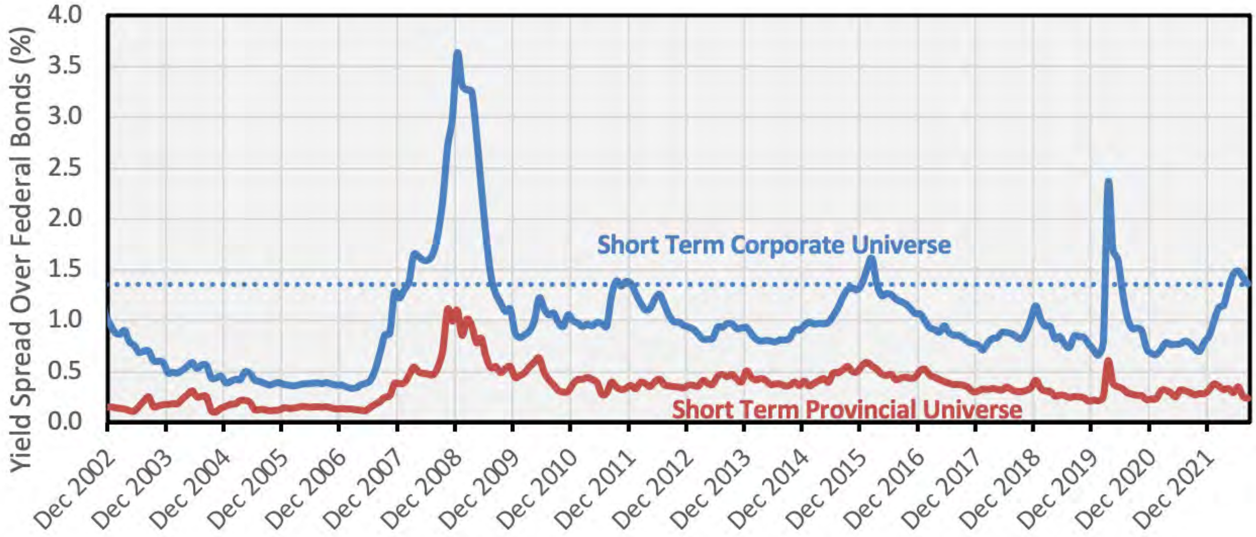
"Never Let A Good Crisis Go To Waste" – Winston Churchill

Today's environment presents investors with some opportunities. The appropriateness of options will vary for individual companies, but below are some interesting ones we see that warrant some attention in the public bond space. Alternatives (private debt, commercial mortgages, etc.) are fantastic tools to consider as well, but given the overall size of the public bond portfolios, today's market may be the easiest, cheapest and most effective way to help achieve investment goals.

While Provincial Bonds are a cornerstone of P&C investing toolkits, the events of 2022 have not translated into wider provincial spreads. This outperformance, however, does mean that the returns going forward may not be as attractive when compared to corporate bonds.

Chart 4 – Short Term Corporation Universe & Provincial Spreads

Corporate Spreads Near Non-Crises Widen



Source: FTSE, CIBC Asset Management

Wide corporate spreads are beneficial for both passive and active investors. On December 31st the FTSE TMX Short-Term Corporate Index had a spread of 0.85%. As of August 31st, that spread was 1.36%.

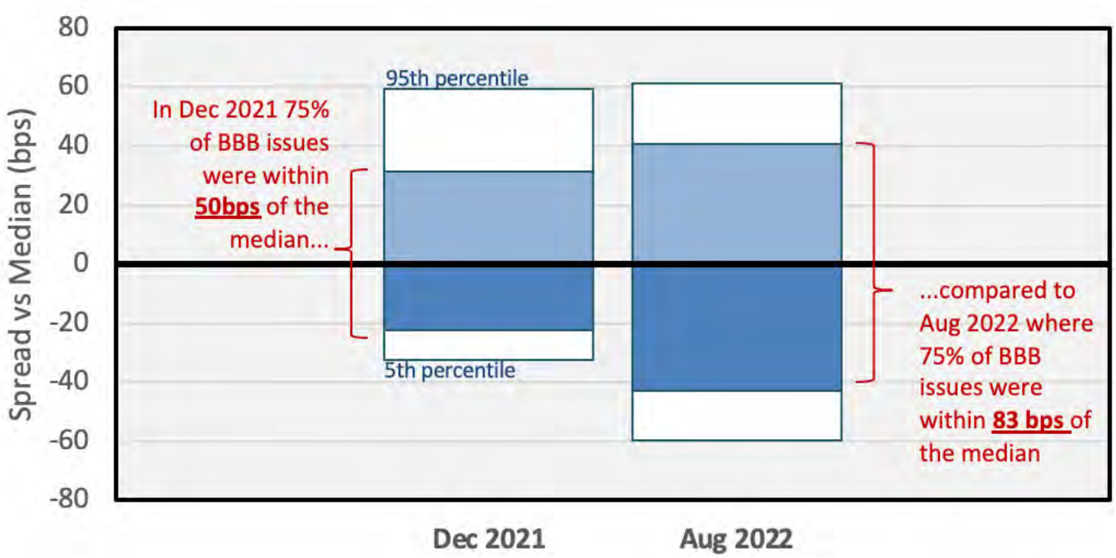
CIBC Asset Management's latest forecast has spreads widening slightly as economies digest higher rates, but from a medium- and long-term historical perspective, today's levels have been seen as opportunities.

For investors who are able to be more granular in their approach to portfolio allocations, there are more opportunities to explore.

Spread dispersion among individual BBB bonds has been the most pronounced, but also exists for 'A' rated names. The diverging amount investors are compensated for bonds with similar ratings (and therefore MCT charges) means the opportunity set for active managers to select from has increased and may ultimately help them to outperform passive benchmarks.

Chart 5 – Short BBB Spread Dispersion

Creating Opportunities for Active Management



Source: FTSE, CIBC Asset Management

For investors who are able to reallocate some Federal/Provincial bond positions to corporate bonds, now may be a good time to obtain yield pickup for high-quality, lower capital charge corporate bonds. 'A' rated financial issuers have been going to market during the pandemic, as even high-quality banks have needed to issue debt more frequently, and this has resulted in spreads widening more than other sectors.

Consider two Canadian bonds with similar maturity dates (Table 1). The Pembina bond began the year 42 bps wider than the JP Morgan Maple bond. By August 31st, the spread for this bond was only 19 bps in additional yield, despite weaker credit fundamentals and higher MCT capital charges.

Table 1 – 'A' Rated Bond vs 'BBB' Bond Spread Changes

	JP Morgan 1.896 March 2028	Pembina 14.02 March 2028
Currency	CAD	CAD
Rating	A	BBB
Spread Dec 31, 2021	98 bps	140 bps
Spread Aug 31, 2022	167 bps	186 bps
Change	+69bps	+46 bps

Source: Bloomberg, CIBC Asset Management

[This analysis should not be considered an investment recommendation or advice, but to illustrate market discrepancies exist for active management.]

Conclusion

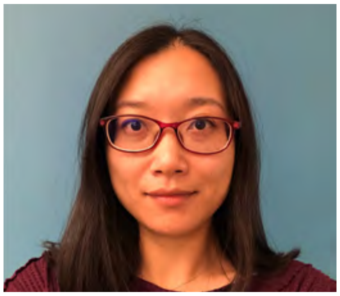
2022 has been a challenging year for bond investors, as yields have risen and returns have lagged to historic levels. However, there are actions that investors can take to seize the opportunities that this market is presenting.

When reviewing their portfolio positions for the upcoming year, investors should keep in mind:

1. Bond portfolio investors have reasons to be optimistic;
2. Corporate bonds broadly offer an attractive opportunity;
3. Active management & strategic allocations should consider MCT charges, given the dispersion within the fixed income universe and opportunities to invest in high quality names.

Solvency Analysis

A Turning Point? - by Zhe (Judy) Peng and Grant Kelly



The Canadian property and casualty (P&C) insurance industry exhibited strong performance in 2021, with strong premium growth and ahistorically low loss ratios contributing to a return on equity (ROE) of 17.0%, the third best result in the past 40 years. In Q2 of 2022, the strong revenue performance continued, with direct premium written exceeding the Q2 2021 number by more than $3 billion.

However, bottomline results were not as strong as industry net income dropped sharply - by $1.37 billion. The driver of this deterioration was lower investment income which fell $2.6 billion compared to the first six months of 2021. As a result, annualized return on equity (ROE) decreased to 12.5%, from 19.0% in Q2 2022. Worse still, the return on investment (ROI) has actually gone negative, falling from 3.7% in 2021 to -2.2% in the first six months of 2022.

Most insurers were fortunate that the strong performance in 2021 allowed them to build their equity base and/or strengthen reserves. As a result these investment losses are unlikely to bring about concerns of solvency – if they are only a short-term phenomenon. As of Q2, the industry's MCT ratios and BAAT ratios both fell marginally, but at 254.4% and 293.5% respectively, both ratios remain well above 150%, the OSFI supervisory target.

Looking at different lines of business, the Personal Property loss ratios jumped by more than 10%, up from 45.7% to 59.2%, mostly due to higher natural catastrophe losses. Newfoundland and Labrador and Manitoba saw the largest surges in loss ratios, with the loss ratio of the former jumping from 46.1% to 75.4%, and the latter increasing from 42.3% to 84.0% – almost a twofold increase. The deteriorating performance in Personal lines is offset somewhat by the positive result from the Commercial Liability line, where the loss ratio decreased from 56.3% in 2021Q2 to 33.0%. As a comparison, the loss ratios for Commercial Property were 45.4% in 2021 and 61.6% in 2020, respectively.

While the capital ratios of the companies competing in the market remain strong PACICC will continue to closely monitor the results of the insurers operating in Canada as industry results begin their anticipated reversion to the historical mean.

Key Financial Indicators

2022 Q2 Financial Year Results

($ millions)	Q2 YTD 2022	Q2 YTD 2021	Percentage Change
Direct Premiums Written (DPW)	$40,001	$36,977	8.18%
Net Pemiums Earned (NPE)	$30,464	$30,172	0.97%
Net Claims Incurred	$15,179	$15,462	-1.83%
Operating Expenses	$10,026	$9,491	5.64%
Underwriting Income	$5,423	$5,305	2.22%
Net Investment Income	-$1,216	$1,543	-178.81%
Net Income	$3,588	$4,965	-27.73%
Combined Ratio	84.50%	82.70%	2.18%
Net Loss Ratio	49.80%	51.20%	-2.73%

Source: MSA Research as of August 28, 2022.

Select Solvency Indicator Ratios

	Q2 2022	Q2 2021
Average Equity (in $millions)	$56,545	$52,238
Return on Equity (ROE)	12.7%	19.0%
Return on Investment (ROI)	-2.2%	3.7%
Comprehensive ROE	-1.4%	20.6%
Comprehensive ROI	-9.6%	3.7%
MCT Ratio (Capital Available/Capital Required)	254.4%	264.4%
BAAT Ratio (Net Assets/Capital Required)	293.5%	298.9%

Loss ratios by line

Claims paid/net premium earned

	Q2 2022	Q2 2021
Total Auto	55.4%	55.4%
Personal Property	59.2%	45.7%
Commercial Property	46.6%	43.0%
Commercial Liability	33.0%	56.3%

Recent Insurer Failures in Florida, US

by Zhe (Judy) Peng

Large losses driven by catastrophe losses and high legal costs have driven many insurers in Florida out of business in the last several years. The state of Florida has an industry compensation scheme with losses funded by "surviving" insurers licensed in the state. With fewer remaining insurers, each has to shoulder higher assessment surcharges, which is causing even more incumbents to exit. This grave situation is likely to worsen if no legislative measures are taken.

Florida enjoyed a ten-year run with few insolvencies. But this good fortune was ended by losses from Hurricane Irma in 2017 and Hurricane Michael in 2018. Since 2018, Florida has seen 13 insolvencies (see Table 1). In some ways, these post-catastrophe failures in Florida feel like déjà vu. Eleven insurers became insolvent after Hurricane Andrew struck the Sunshine State in 1992.

Table 1: Recent Insolvencies in Florida (2018–2022 Q2)

Insurer	Year of Establishment	Date of Liquidation	Number of Policies
Sawgrass Mutual Insurance Company	2007	Oct 1, 2018	17,778
Florida Specialty Insurance Company	1997	Oct 2, 2019	90,000
Windhaven Insurance Company	2005	Jan 6, 2020	73,000
Windhaven National Insurance Company [Texas]	2012	Mar 5, 2020	7,000
Bedivere Insurance Company [Pennsylvania]	1956	Mar 11, 2021	N/A
American Capital Assurance Corporation	2011	Apr 14, 2021	2,300
Gulfstream Property & Casualty Insurance Company	2004	Jul 28, 2021	45,000
Western General Insurance Company [Texas]	1971	Aug 5, 2021	N/A
Global Liberty Insurance Company of New York [New York]	1999	Oct 12, 2021	N/A
St. Johns Insurance Company	2004	Feb 25, 2022	147,000
Avatar Property & Casualty Insurance Company	2008	Mar 14, 2022	42,000
Lighthouse Property Insurance Corporation	2008	Apr 28, 2022	30,000
Southern Fidelity Insurance Company	2005	Jun 15, 2022	150,000

Notes: Lighthouse Property Insurance Corporation, domiciled in Louisiana, mainly operates in Florida. Windhaven National Insurance Company (based in Texas) is a subsidiary of Windhaven Insurance Company (based in Florida).

Source: Florida Department of Financial Services and Theodorou (2022).

A Pessimistic Outlook

When a member insurer in Florida becomes insolvent, the Florida Insurance Guaranty Association (FIGA) steps in to pay claims in place of the insurer. To collect adequate funds to cover these claims, FIGA is entitled to charge a "regular assessment" capped at 2% of direct written premiums, as well as an emergency assessment, the rate of which was raised from 2% to 4% in 2020. After the recent series of insolvencies, FIGA initiated a 0.7% assessment in October 2021, applicable for all policies signed or renewed in 2022, and another 1.3% assessment in March 2022 for all policies valid between July 2022 and June 2023 (see Table 2 for a summary).

For hurricane-induced insolvencies, the Florida Hurricane Catastrophe Fund (FHCF) will first pay the claims through the proceeds of revenue bonds or other debt products. The principal and interest thereof are paid by an emergency assessment levy. Historically, the rate for this has been between 1.0% to 1.3% of direct written premium. All assessments are additive. If another hurricane attacks Florida in the coming months (entirely possible given the climatologists' projections for the looming hurricane season), surviving insurers' costs to stay active in the state will increase even further.

Zhe (Judy) Peng is a Reseach Assistant at PACICC

Table 2: Assessment Surcharge

FIGA Assessment

Assessment (%)	Approved on	Period appliable
0.8%	Nov 6, 2009	Jan 1, 2008 – Dec 31, 2008
0.9%	Nov 6, 2012	Jan 1, 2011 – Dec 31, 2011
0.7%	Oct 11, 2021	Jan 1, 2022 – Dec 31, 2022
1.3%	Mar 11, 2022	Mul 1, 2022 – Jun 30, 2023

FHCF Assessment

Assessment (%)	Approved on	Approved on
1.0%	N/A	Jan 1, 2007 – Dec 31, 2010
1.3%	N/A	Jan 1, 2011 – Dec 31, 2014

Notes: The last two incidents of assessment before 2021 happened in 2009 and 2012, and the rate assessed at that time was 0.8% and 0.9% times the member insurers' net premium written in the previous year.

The recent FIGA assessments have added to the costs for surviving insurers already struggling with high catastrophe losses and litigation costs. P&C insurers in Florida have been operating at a loss over the past five years. The average combined ratio reported by Gallagher Re reached 115.4% in 2021. This sustained unprofitability has caused Lexington Insurance, an AIG company, to quit the Florida market, and at least four others to reduce their underwriting business in the state (Theodorou, 2022), including Bankers Specialty Insurance Company.

The fear is that the worst is yet to come. In June 2022, the Florida regulator declared the liquidation of Southern Fidelity Insurance Company, due to its deteriorating financial condition. The company was unable to obtain reinsurance protection and had lost its financial rating from Demotech. This was followed by five more cases in August, where Demotech stripped the rating from other Florida P&C insurers (see Table 3) for detail). The rating withdrawal is expected to cause other issues for already poor-performing insurers – with significant knock-on implications, as homeowners lose their mortgage financing if their insurer is no longer rated "A" by Demotech or "B++" by A.M. Best.

Table 3: List of Florida Insurers that Lost Financing Ratings or Received Rating Downgrade from Demotech

Insurer	Date of Rating Retraction	Rating change in 2021	Combined ratio [Gallagher Re] 2020	Combined ratio [Gallagher Re] 2021
Bankers Specialty Insurance Company	Aug 2, 2022	Withdraw	94.9%	90.5%
First Community Insurance Company	Aug 2, 2022	Withdraw	120.1%	135.6%
Weston Property & Casualty Insurance Company	Aug 1, 2022	Withdraw	121.9%	N/A
FedNat Insurance Company	Aug 1, 2022	Withdraw	145.1%	185.1%
United Property and Casualty Insurance Company	Aug 1, 2022	Downgrade	125.1%	133.1%

At this stage, we do not yet know if the situation will continue to deteriorate at the current pace. But one thing appears certain: the downward spiral will continue in the Florida insurance market, unless regulators take actions to curb fraud. In the meantime, Citizens Property Insurance Corporation, which was created in 2002 by the Florida state government to provide property insurance for homeowners who were unable to obtain insurance coverage elsewhere, will be forced to further expand market share, with long-term implications for the future of the private insurance market in the state and hidden costs which will only later end up being wholly borne by Florida (and potentially all US) taxpayers.

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:

Wednesday, November 16

Keynote:	**Glenn Gibson**, Chair, Board of Directors, PACICC **Alister Campbell**, President and CEO, PACICC
Topic:	New policy priorities for PACICC identified at the June 2022 Strategic Planning Conference
Discussion Panel 1*:	Status of Class Action Lawsuits for Business Interruption Stemming from COVID-19
Discussion Panel 2*:	Privacy and Protection of Personal Information

*Speakers being confirmed

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 Date:

Thursday, October 20

Topic: *Why Insurers Still Fail – Mapping the Road to Ruin*

PACICC's **Grant Kelly** (Vice President, Financial Analysis and Regulatory Affairs and Chief Economist) and **Zhe (Judy) Peng** (Research Associate) will discuss lessons learned from four recent P&C insurance industry failures, summarized in PACICC's most recent *Why Insurers Fail* report.

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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