



*Insolvency protection for home, car and business
insurance consumers*

2021-23 Plan and 2021 Budget

November 2020

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Message from the President

Introduction

The year 2020 has been extraordinary in so many ways – and presented us all (as individuals and as businesses) with challenges few can honestly say they had anticipated when Plans for the year were written last Fall. It is in precisely such periods, with unexpected systemic shocks, that insurers can fail, and at PACICC, we have been doubly alert as a result – throughout this period of uncertainty. I am pleased to say that as of this moment of writing, the Canadian property & casualty insurance industry has demonstrated (once again) that it is both well-capitalized and responsibly managed. Even better, through comprehensive business continuity planning, insurers have been able to maintain good customer and broker service, while at the same time managing to ensure the health and safety of their employees. As a result, I can once again report that the three-part mission of PACICC was successfully achieved in 2020.

I am also pleased to be able to report that the work of PACICC continued apace in 2020, notwithstanding the “lockdowns” and the requirement to have all of our team work from home for such an extended period. We had a particularly ambitious agenda for 2020 and I am proud of the way our small group has responded to ensure that we maintained full momentum across all of our Strategic and Operational Priorities.

Strategic Priorities

Coverage & Benefits Review

We began 2020 already in full stride, and in April of this year, at our AGM, our Member Insurers voted unanimously to endorse the first comprehensive modernization of our Coverage & Benefits since our founding in 1989. This outcome (affirmed at what must have been one of the very first “virtual AGMs” in Canada) was the culmination of months of hard work, including a comprehensive industry consultation exercise with a Member Survey which generated responses from more than 80% of the Membership of PACICC. Our Board listened carefully to all the feedback and took a balanced approach in its final recommendations. This balance was clearly respected and appreciated by our provincial and territorial regulatory partners, who unanimously approved our proposed changes.

Expanding our “Resolution Toolkit”

Our 2020 Strategic Priority has been to explore options to “Expand our Resolution Toolkit.” A research paper, authored by our Chief Economist Grant Kelly, and published last year in our *Why Insurers Fail* series, identified that there are now 17 insurers in Canada large enough that, should they fail, the required PACICC Assessment to handle all Unpaid Claims and refund Unearned Premiums, would render some other Insurer Members technically insolvent. The paper provided a series of scenarios and identified a corresponding series of potential options for PACICC to engage in resolution actions, prior to liquidation. Following on from this important research, we have been executing diligently against our 2020 Action Plan to develop our “resolution toolkit.”

The idea of an expanded “toolkit” does not mean that PACICC is asking for broader powers. In fact, when we were first conceived back in 1989, the industry conferred to us substantial authority to engage in precisely these types of resolution action. However, historically, we

have rarely been given the opportunity to use this powers because we were only brought to the table by prudential supervisors at the point where they had already lost confidence in the future viability of the Member Insurer, and were in the process of going to Court to place the troubled company into liquidation. Over the last five years though, Quebec, OSFI and most recently British Columbia have published updated Intervention Guides, which specifically name PACICC and grant us a seat at the table in the period prior to that final liquidation determination. Which means that PACICC now has both the means and the time margin to explore possible resolution alternatives.

Before PACICC could use these powers for the first time however, our 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. Our Consultation Paper was published on July 31, and I am pleased to report that it served its purpose well. We have now 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 final Protocol and accompanying Criteria, reflecting this input from Member Insurers, will help to ensure that, should our Board choose to engage in resolution actions to support the PACICC Mission, we will do so in a manner aligned with industry expectations.

Mitigating Systemic Risk

In the Fall of 2019, our Board approved a 2020 Plan which, for the first time, authorized PACICC staff to pursue two Strategic Priorities in a single year – one of them designated a “Permanent Priority Issue.” Given the small scale of the team tasked with achieving this Plan, this was no small challenge. But, it properly reflected the reality that the industry, and PACICC, remains seriously exposed to systemic risk correlated with a major earthquake in British Columbia or the Montreal/Ottawa corridor. And, it also reflected the reality that successfully resolving this problem and plugging this grave gap in the public infrastructure of Canada – best addressed via some form of federal backstop mechanism – was proving to be a long-term challenge.

We formulated a two-part Action Plan with both broader strategic thrusts and interim mitigating actions. Our team has worked hard this year on both fronts and I am pleased to report good progress. We believe that the global pandemic has helped illustrate to governments, here and abroad, that it makes sense to have an “in-case-of-emergency-break-glass” plan developed, in advance, to mitigate the consequences of severe tail-risk events. We remain optimistic that our Federal government will take steps soon to address this critical issue.

Enhancing our Contingency Planning and Preparedness

In our Board-approved Three-Year Plan, we identified enhanced Contingency Planning as our 2021 Strategic Priority. Work has already begun to ensure that we enter the new year ready to go. Our plan is to engage in “desktop simulation exercises”, first with the AMF and then with OSFI, that will allow us to road-test our current protocols and identify areas where we need to adjust our current mechanisms, enhance our capabilities or even fine-tune our 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. We intend to engage the Pre-Insolvency Regulatory Liaison (or “PIRL”) Committee of our Board, comprising our independent Directors, directly in this work, since it is anticipated that they would play a central role in such scenarios.

Operational Priorities

Financial Management

At the end of 2019, our Board authorized another significant change to our operating model, as PACICC moved to adopt a modernized mechanism for levying the Administrative Assessment required to fund our ongoing operations. The new methodology is risk-based and comparable to that employed by OSFI. I am pleased to report that the implementation of this new model went very smoothly. In parallel, PACICC moved to ensure that it managed with a more sustainable balance between revenue and expenses, and that our operating surplus was replenished. We have managed strictly to ensure we respect this budget – and the funds entrusted to us by our Insurer Members – and I am comfortable that we will meet or exceed our planned operating surplus by year-end.

Contingency Planning and Readiness

Any organization needs to plan to advance itself on multiple fronts at once. In our case, we had identified several key Operational Priorities to be addressed in parallel with the key strategic initiatives described above. The first, and most important, was to enhance our contingency preparedness, by conducting a comprehensive review of the types of external capabilities and resources we would potentially require to assist us in liquidation or resolution activities, if and when a Member Insurer becomes “distressed.” Much time has passed since the last “live-fire” event at PACICC and many of the established service vendors have seen turnover in their ranks.

We executed on this operational priority by issuing a formal Request for Standing Offer (RFSO) to providers of services in four key areas; Actuarial Consulting; Advisory and Restructuring; Legal and Claims Management. In the course of the year, we had direct meetings with 13 prospective vendors and have now identified a panel of prospective service providers in each of these four crucial sectors. We now know whom we could call upon, how we would interact with them, on what terms and for what cost. This exercise has been particularly productive, and I am now confident that when the call comes from a regulator seeking PACICC’s help, we will have access to the skill sets that we need, with pre-negotiated terms of trade that will ensure that we can respond rapidly, effectively and cost-efficiently.

Digital Modernization

There were several other significant operational actions on our priority list for this year. They included an initiative (which proved particularly timely given the challenges of pandemic “lockdowns”) to enhance our capacity to interact with our Member Insurers digitally. We have moved to ensure we can conduct all of our financial activities via Electronic Fund Transfer (both revenue collection and expense payment), as well as build a comprehensive database to enable e-mail correspondence with all Members. The events of this year have accelerated the trend toward digital interactions for all industries – including ours. I am pleased to report that PACICC will be in a position to effectively conduct its operations, and transact efficiently with our Member Insurers, in this modernized environment.

The dictates of Work-from-Home tested our operational capacities. I am pleased to confirm that we were able to quickly and flexibly respond to the challenges encountered. But, as it became clear that the changed working environment might be more than short-term, it became evident that we needed to modernize and upgrade our Information Technology infrastructure, and simultaneously enhance our IT security. I am pleased to report that this work will be fully complete by the end of 2020, and we are now positioned to function effectively, and securely, on a remote basis for as long as is required.

Activities/Engagement

Industry Engagement

In the course of 2020, PACICC invested extra time in ensuring an effective and collaborative working relationship with the Insurance Bureau of Canada. I want to express my appreciation to Don Forgeron and his team for their mutual effort in this regard. Together, we worked on the critical Earthquake file – to develop a new industry consensus on the ideal mechanisms to mitigate systemic risk. We also collaborated on an exercise to explore alternative Assessment Mechanisms for PACICC in the event of a major natural catastrophe. The IBC formed a Special Working Group specifically to assist PACICC in the consultation exercise around our “resolution toolkit.” Finally, we were pleased to be asked to engage directly with a special Committee of the IBC Board focused on the broader challenges of Tail Risk. Although our organizations have distinct and different mandates, it is essential that we act in alignment wherever possible. I can confidently say that this critical working relationship functioned particularly well this year.

The global pandemic has fundamentally shifted the way in which we interact with stakeholders. Limits on travel and practical obstacles to the normal face-to-face meetings, meant that we had to move to engage our industry stakeholders on a virtual basis. This Summer, I conducted a “Top 20 CEOs” virtual tour, and was thrilled with the ready response from the most senior leaders in our industry. This Fall, we moderated a three-hour virtual workshop, under the auspices of the Northwinds Institute, with 30+ C-Suite industry leaders on the specific topic of resolution. This event was a critical component of our consultation exercise on this Strategic Priority, and the result was a positive contributor to our final successful outcome on this important file.

A critical component of the PACICC strategy for industry engagement in “times of peace” is to help the industry continue to advance its risk management capabilities. Central to our approach are our regular series of Risk Officer’s Fora and Emerging Risks Webinars. In 2020, these too became an entirely virtual affair. But in such uncertain times, the topical agendas we curated and the high-value speakers we secured, meant that our events generated the highest turn-outs and most positive post-event survey results we have ever seen. We will be exploring ways to further expand this particularly successful vehicle for engaging our industry in discussion of the most important risk topics of our time.

Regulator Relationships

We also worked to ensure we continued effective engagement with our regulatory partners despite “lockdowns.” In the Spring, we were very pleased to see the publication of a new Intervention Guide by the BCFSa, the new regulatory authority in the province of British Columbia. We also engaged in increasingly productive dialogue with the province of Alberta, and are optimistic that we will be able to formalize our working relationship with that

province in 2021. Our critical working relationships with OSFI and the AMF were also maintained effectively throughout this challenging year. We held joint meetings with both regulatory authorities and our PIRL Committee (for the first time, in the case of OSFI) and feel positive that despite the lack of face-to-face meeting time, the collaborative relationships so essential to our effective functioning in time of crisis are in good shape. Perhaps one indication of this, is the invitation I was honoured to receive to serve as a Member of OSFI's Culture External Advisory Committee (CEAC).

Media/Publications

Ensuring PACICC's voice is heard across the industry and the broader financial services sector is an important part of our work. We will again publish four issues of our *Solvency Matters* newsletter in 2020, and continue to receive strong media coverage on the high-value content we provide through this medium. One article (on Systemic Tail Risk) from the Fall issue became a widely read "op-ed" piece in the *Globe & Mail's* Report on Business. We continue to expand our distribution of this publication and will experiment with social media distribution in 2021. We also published another substantial research piece in our *Why Insurers Fail* series – on the failure of Reliance Insurance Group. This fascinating story, which provides important insights into how OSFI and PACICC might manage future failures involving a Canadian "branch" is a must-read for industry players.

International engagement

Our international engagement ensured we are in tune with global regulatory trends and up-to-speed with evolving best practice in resolution. I have had the honour to serve as Chair of the International Forum of Insurance Guarantee Schemes this year. In this role, I had the fascinating opportunity to moderate a day-long European Insurance and Occupational Pensions Authority (EIOPA) workshop on potential "Harmonization of Insurance Guarantee Schemes" in the EU and co-host (with PIDM of Malaysia) an international Webinar on the implications of COVID-19 for the insurance sector. We have also played a central role in the development of Framework Guidance and Core Principles for Insurance and Guarantee Schemes, and as a result, have had the special opportunity to broaden our working relationship with the International Association of Insurance Supervisors (IAIS).

Conclusion

This has been my second year in the role as President & CEO of PACICC and I have enjoyed every minute of it. I am really proud of the way our small team has executed on our very ambitious 2020 Plan, despite the curveballs of COVID-19. I am also deeply grateful for the continued active coaching and engagement from our Board Chair Glenn Gibson, and all of our Board Directors, as we work to ensure that Canada and our industry will be well served by PACICC when the time comes, once again, to act in pursuit of our Mission to protect policyholders, and to ensure that Canadian policyholders continue to trust our industry through thick and thin.

Alister Campbell

President and CEO
PACICC

2020 Priority Issue – Current Situation and Next Steps

Priority Issue for 2020

Expanding PACICC’s Resolution “Toolkit”

Following the global financial crisis of 2008, policymakers in Canada and abroad made better resolution planning a priority in order to mitigate market disruptions caused by failed financial institutions. While much of the focus has been on banks, insurance companies also came under scrutiny – particularly larger firms considered by policymakers to be “systemically important.” As public policy evolved in this area, an important distinction has been drawn between “recovery” and “resolution”. And in both, ensuring a clear understanding among all parties about who does what, and when, is imperative. One outcome of this thinking is updated Intervention Guides published by prudential supervisors outlining their “staging” process. The completion of Intervention Guideline Agreements with Canada’s principal insurance solvency regulators has increased the likelihood of PACICC being called upon to protect policyholders of a troubled Member Insurer prior to an actual insolvency – in the absence of a Court-ordered liquidation.

When it was first established, PACICC was granted many of the powers of a “resolution authority.” However, we have rarely, if ever, had the opportunity to use them. PACICC has made important changes to enhance its corporate governance (establishment of the Pre-Insolvency Regulatory Liaison Committee (PIRL)) and to strengthen its working relationships with insurance regulators (Intervention Guides signed with OSFI, AMF and B.C.). As a result, PACICC is better positioned as a guarantee fund to play a broader, more constructive role in enhanced resolution planning for Canada’s P&C insurance industry.

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. PACICC issued a 25-page Consultation Paper to Member Insurers over the Summer, seeking input on how PACICC could best use its resolution powers in future. Guidance was sought 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?

The goal of this exercise 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 create a final version (subject to Board approval) to guide the deliberations of the PACICC Board in scenarios where the prospect of intervening prior to liquidation is being contemplated. At its November 2020 meeting, the PACICC Board will be asked to approve the Resolution Protocol and to authorize PACICC staff to further test its application in 2021 by conducting desktop simulations with regulators.

Priority Issues for the period 2021 to 2023

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 we are fully capable of responding in the professional way required in the case of a larger insolvency.

In our Board-approved Three-Year Plan for 2020-2022, we identified enhanced Contingency Planning as our 2021 Strategic Priority. And work has already begun to ensure we enter the new year ready to go. Our plan is to engage in “desktop simulation exercises”, first with the AMF and then with OSFI, that will allow us to road-test our current protocols and identify areas where we need to adjust our current mechanisms or enhance our capabilities. 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. We intend to engage the PIRL Committee of our Board (comprising our independent Directors) directly in this work, since it is anticipated that they would play a central role in such scenarios.

The learnings from these simulations will ensure that our Contingency Planning capabilities are robust and our response mechanisms are effectively aligned with key regulatory partners.

Proposed Priority Issue(s) for 2022

OPTION A: 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 industry).

Priority Issues for the period 2021 to 2023 (Continued)

If the PACICC Board were to select this as our Priority Issue for 2022, we would conduct a comprehensive review of the adequacy of the Fund to handle the scale of possible future defaults, and the required size to potentially mitigate the risks associated with systemic contagion post-quake. The review would also evaluate the potential to broaden the uses of this pool of industry capital to provide a potential source for:

- Funding of resolution actions
- Purchase of reinsurance
- Capitalization of a PACICC Bridge Insurer.

Proposed Priority Issue(s) for 2022

OPTION B: Strategic Evaluation of PACICC Branding (Internal/External)

A core component of the PACICC three-part Mission is to “maintain consumer confidence in Canada’s P&C industry.” This obligation is also a consistent element in the objectives of all the other policyholder protection entities in Canada. Many of these schemes have consumer-facing, branding strategies as part of their effort to maintain and grow confidence in their sectors of financial services.

The largest of these, of course, is CDIC and it is difficult to imagine PACICC needing to engage in anything like such substantial marketing activities – particularly given the reality that “bank runs” are a much more significant threat than a “run” on a property & casualty insurer. Better parallels might be CIPF or Assuris, that have developed branding strategies which involve, among other things, signage and formal communication with new policyholders/investors. The proposed Strategic Evaluation would provide guidance on if and how PACICC might expand its branding footprint – drawing on best practice in Canada and internationally.

Within the industry, there are also opportunities to enhance stakeholder awareness, particularly given the absence of any recent insolvency. Brokers and agents could be a significant target market for branding and increased awareness. The proposed Strategic Evaluation would look at ways in which PACICC could enhance industry understanding of the essential value that PACICC brings to the consumer trust equation.

PACICC Staff Recommendations:

- *Establish “Review of Scope/Scale/Uses of PACICC Compensation Fund” (OPTION A) as PACICC’s Priority Issue for 2022*
- *Designate “Strategic Evaluation of PACICC Branding (Internal/External)” (OPTION B) as an Operational Priority for 2022.*

Priority Issues for the period 2021 to 2023 (Continued)

Proposed Priority Issue(s) for 2023

Given the uncertainty regarding possible actions by the Federal government to finally address the earthquake file, as well as the anticipated learnings from our Desktop simulations next year, there are a diverse array of potential Priority Issues for 2023. And, at this time of writing, it is also impossible to be sure whether we have identified the entire range of potential Policy Priorities.

PACICC Staff Recommendations:

- *Approve the proposed Plan for 2021 and 2022*
- *Request an update from Management regarding 2023 Priorities at our Board meeting in April of 2021.*

Permanent Priority Issue for 2021-2023

Mitigating Systemic Risk from Quake

Despite sustained efforts from PACICC and IBC over recent years, we have not yet achieved a satisfactory resolution of the largest single risk facing PACICC and the Canadian P&C industry – systemic contagion driven by a large B.C. earthquake. Work on this file is ongoing and must remain a crucial objective for our Board and for PACICC staff. However, timing of resolution is not under our control, given the key role played by the Federal government in reaching a positive outcome requirement.

PACICC Staff Recommendation:

- *Retain “Mitigating Systemic Risk from Quake” (including securing a Federal backstop mechanism, developing an alternative assessment mechanism and conducting a Compensation Fund adequacy review) as a Permanent Priority Issue, until such time as a Federal backstop mechanism is in place.*

PACICC's Operations Priorities for 2021 to 2023

Because preparedness is a constant requirement, PACICC also identifies its Operational Priorities, separately from the Strategic Policy Priorities approved each year by the Board of Directors.

2021

- Conduct Benchmark Survey on Enterprise Risk Management Practices of all Member firms and publish a report highlighting summary findings for the industry.
- Review and update PACICC's documented insolvency management procedures as part of maintaining adequate preparedness.
- Assess PACICC's operations relative to those of P&C insurance guarantee funds in other countries.
- Review PACICC's physical office space requirements in advance of the Corporation's current lease expiry (December 31, 2022).

2022

- Prepare for the next scheduled Federal Government review of the legislative and regulatory framework governing Canada's financial services sector.

2023

- Conduct a review of PACICC coverage and benefit levels to ensure that they remain fair and appropriate. PACICC committed to undertake a review within three years following the adjustment of coverage and benefit levels in 2020.

Mission and principles

Mission Statement

The mission of the Property and Casualty Insurance Compensation Corporation is to protect eligible policyholders from undue financial loss in the event that a Member Insurer becomes insolvent. We work to minimize the costs of insurer insolvencies and seek to maintain a high level of consumer and business confidence in Canada's property and casualty insurance industry through the financial protection we provide to policyholders.

Principles

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

PACICC's planning process

PACICC's Board of Directors has established a formal planning cycle focused on two regular meetings during the calendar year:

- **Spring** – PACICC staff present their evaluation to the Board summarizing the business environment for the Corporation, industry capitalization and measures of solvency risk. Discussion with the Board focuses on trends in the number of insurers with weak regulatory capital scores, rapid premium growth, significant adjustments in loss reserves, and identification of member insurers unwilling to share financial results or other signs of vulnerability. Enterprise risk management (ERM) priority risks, ratings and action plans are reviewed by the Audit & Risk Committee and by the Board.
- **Fall** – The Board considers PACICC's strategic plan, identifying the priority issues that the Corporation plans to address over the next three years, as well as the Budget for the coming year. The main focus of the Plan is on the strategic priorities that PACICC will address and deliver on in the year ahead. ERM priority risks, ratings and action plans are reviewed by the Audit & Risk Committee.

PACICC's risk profile

PACICC's Risk Profile remains stable.

Impact Rating	Very High	Financial Risk 1-1 Insolvency costs exceed risk limit-risk appetite			
	High		Regulatory Risks 1-5 New laws 1-6 Benefits enhanced		
	Medium		Operational Risks 1-7 Resource demands	Regulatory Risks 1-3 Rate regulation Operational Risks 1-8 Lack of liquidator expertise	
	Low				Regulatory Risks 1-2 Solvency supervision 1-4 Outdated winding up legislation
		Very Low	Low	Medium	High

PACICC's priority risks (risk profile)

- 1-1** A catastrophic earthquake or other factor causes a very large insurer to fail, or leads to multiple, smaller insolvencies; resulting insolvency costs exceed PACICC's risk limit-risk appetite (twice our annual general assessment capacity)
- 1-2** Supervisory practices below minimum IAIS standards
- 1-3** Rate regulation causes insolvency
- 1-4** Outdated winding-up legislation
- 1-5** Adverse changes in insurance legislation
- 1-6** PACICC could be forced to increase coverage and benefits
- 1-7** Risk 1-1 puts extraordinary demands on human resources
- 1-8** Much of Canada's accumulated P&C liquidation expertise has "retired"

The risk formerly designated 1-8 (Unexpected insolvency costs due to a lack of Member financial data) has been transferred to Section 2, as the risk was significantly mitigated by PACICC's By-Law revision making obligatory the provision of Member financial data.

Risk Officer's Forum

PACICC launched a P&C insurance Risk Officer's Forum in December 2013 in response to needs expressed by Member companies for better information sharing on effective ERM practices. This initiative has reinforced PACICC's goal of promoting better enterprise risk management in Canada's P&C insurance industry. Over the past year, the Risk Officer's Forum liaised with principal contacts in all 175 Member companies regarding a full schedule of Forum activities and events. There are more than 650 risk professionals in PACICC's Forum member database, including: Presidents and Chief Executive Officers, Chief Risk Officers, senior Finance department staff from larger member companies and Chief Agents.

Our Forum and Webinar series is overseen by an Advisory Committee of member-company CROs (currently chaired by Brandon Blant - Intact Financial Corporation). 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 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; and
- Providing resources, references and information to facilitate research of risk management and related governance topics.

We have held two online Forum meetings in 2020 (April 2 and September 17) with a third planned for November 6. The latter coincides with OSFI's annual Risk Management Seminar. Forum meetings feature a topical guest speaker and are supported by an ever-changing panel of industry experts, who guide group discussion. Recent agenda items have included; COVID-19; New Science of Large Earthquakes; IFRS 17; Organizational Culture; MCT Changes; Climate Risk; Reinsurance Review; Contract Language; Skills Shortages in the Industry; Third-Party Funding of Litigation; and CEO Perspective on ERM. We also hosted three Emerging Risks Webinars this year, each led by subject-matter experts –“Risk Identification and Risk Assessment” (February 26) featuring Polina Avraham (The Boiler Inspection & Insurance Company of Canada), Brandon Blant (Intact Financial Corporation) and Sonny D'Agostino (Farm Mutual Re); “Collision Avoidance Systems and Automated Driving” (May 20), featuring Matt Moore (Highway Loss Data Institute); and “Government Regulation” (October 21), featuring Frank Chong (CCIR and BCFS).

The Risk Officer's Forum is planning a full program for 2021:

Forum Meetings

- **April 1, 2021** OSFI P&C Insurance Group – Presentation
- **September 15, 2021** COVID-19 / Earthquake Risk
- **November 2021*** Results of PACICC 2021 Benchmark Survey on ERM Practices
* *Timed to coincide with OSFI's annual Risk Management Seminar.*

Emerging Risks Webinars

- **February 24, 2021** Risk Identification and Assessment (Panel)
- **May 19, 2021** Technological Change
- **October 20, 2021** Cyber Security

PACICC Fund balances

PACICC Liquidation Funds

PACICC returned close to \$21 million in liquidation dividends to 140 contributing Member companies in 2019, as a result of the successful final resolution of seven historic insolvencies (Beothic, Canadian Millers', Canadian Universal, GISCO, Hiland, Markham General and Ontario General). Small amounts (totaling approximately \$37,000) are owed to a small number of firms that no longer exist. PACICC has been unable to locate successors. PACICC will transfer any remaining balances to its Compensation Fund on April 1, 2021. The amounts that were repaid to each Member company for each insolvency were confirmed by an outside accounting firm.

PACICC Compensation Fund Balance

	<u>on September 30, 2020</u>
Total market value	\$58,839,301

PACICC Operating Fund Balance

	<u>Projected to December 31, 2020</u>
Total	\$1,649,703

**PACICC Annual Budget
Approved 2020 and Proposed 2021**

	Approved 2020 (November 2019)	Proposed 2021 (October 2020)
REVENUE		
Administrative assessment	\$1,933,031	\$1,933,031 ¹
Investment income	\$30,000	\$20,000 ²
Funding from liquidation funds	\$0	\$0
Funding from ICLR	\$112,427	\$124,315 ³
TOTAL REVENUE	\$2,075,458	\$2,077,346
EXPENSES		
Sub-total: Salaries & Benefits	\$1,050,603	\$1,018,727⁴
Research and other consulting	\$150,000	\$160,000
Professional fees (legal and audit)	\$112,000	\$117,000
Premises	\$185,855	\$197,000 ⁵
Operating Expenses (IBC, Telecommunications, IT, F&E, Insurance, Misc.)	\$137,000	\$170,000 ⁶
Travel/Seminars/Conventions	\$75,000	\$65,000 ⁷
Directors' fees and expenses	\$115,000	\$102,000
Publications/Events	\$49,000	\$51,000
Investment management and banking fees	\$90,000	\$70,000
Contingency	\$25,000	\$25,000
Sub-total: Non-Salary Expenses	\$924,855	\$957,000
TOTAL EXPENSES	\$1,975,458	\$1,975,727
Impact on Operating Surplus (Revenue – Expenses)	\$100,000	\$101,619⁸

Notes on Assumptions

1. Revenue model unchanged from 2020 and targeted to generate same amount
2. Estimate (annual interest on Operating Fund surplus) assumes increased yield from IBC-aligned bank relationship but also assumes lower average interest rate in current low-yield environment
3. Assumes 50% of Premises and shared IT platform recovered from ICLR
4. Reflects retirement of part-time FTE, but includes new FTE starting mid-year (postponed from 2020), plus standard Merit adjustment of 2% for current personnel. Also includes \$10,000 Training & Development budget previously booked under Directors Fees and Other Expenses
5. Assumes continued 4% increase in shared expenses and no improvement in lease terms
6. Reflects higher costs of enhanced IT platform and increased costs for insurance (including Cyber cover)
7. Assumes resumption of travel later in 2021
8. Favourable variance will be applied to further replenish Operating Surplus.