



PACICC Risk Management Report

October 2025

PACICC Risk Management Report

At the direction of its Audit and Risk Committee, PACICC revised its Risk Management Report (RMR) to focus on PACICC-only risks.

PACICC's three-part Mission includes:

1. Protecting eligible policyholders from undue financial loss in the event that a Member Insurer becomes insolvent
2. Working to minimize the costs of insurer insolvencies
3. Seeking to maintain a high level of consumer and business confidence in Canada's property and casualty (P&C) insurance industry through the financial protection that PACICC provides to policyholders.

The PACICC RMR focuses on two risks that could cause the Corporation to fail to deliver on its Mission, and eight other risks that could negatively affect PACICC operations.

The 10 risks identified in this document are divided into three categories:

1. Major Risks (2)
2. Significant Risks (4)
3. Moderate Risks (4).

A table summarizing these risks appears on the next page

PACICC Risk Management Methodology

PACICC's approach to risk management is centered on a risk and controls self-assessment coupled with a quality control review (both completed by Management) and a final stage review and challenge of results performed by the Audit & Risk Committee.

2025 Changes

- Addition of Mitigation/Control risk-rating methodology to bridge the gap between inherent and residual risk ratings
- Reclassification of "Reliance on outsourced IT operations" from Moderate Risk to Significant Risk due to PACICC's recent authorization to acquire and store commercially confidential Member Earthquake Exposure Data.
- Addition of Risk Tolerance levels and modification to the Financial Risk thresholds under Inherent Risk Rating Criteria

PACICC Risk Management Report

Risk #	Risk	Risk Type	Change From Prior Rating
MAJOR RISKS			
1-1	Catastrophic earthquake leads to serial Member failure – insolvency costs exceed PACICC's risk appetite limit	Financial	No Change →
1-2	Major externality causes failure of one or more large companies – insolvency costs exceed PACICC's risk appetite limit	Financial	No Change →
SIGNIFICANT RISKS			
2-1	Major/concurrent failures or another event (e.g. COVID-19) places extraordinary demands on human resources	Operational	No Change →
2-2	Faulty risk modelling fails to fully anticipate the impacts of climate change and exposes smaller regional companies to greater risk of failure	Financial	No Change →
2-3	Certain provincial solvency supervisory practices fall below IAIS standards and result in industry insolvencies	Regulatory	No Change →
2-4	Reliance on outsourced operations (IT, AP, Investment, Bank, Legal)	Operational	↑ Increased Risk (Previously Moderate)
MODERATE RISKS			
3-1	Regulators seek to exert more influence over PACICC governance	Regulatory	No Change →
3-2	Ineffective governance (fraud not prevented/detected, security breach, incomplete/inaccurate reports)	Operational	No Change →
3-3	PACICC Member companies lose confidence in PACICC's ability to fulfil its mandate	Financial	No Change →
3-4	PACICC could be forced to increase coverage and benefits beyond levels its Members would support	Regulatory	No Change →

Contents

Current Risk Summary

Risk Appetite Limit	2
Risk Tolerance	2
Risk Register	
A) Inherent Risk Overview	2
B) Mitigation/Control Risk Overview	4
C) Residual Risk Overview	5
D) Consolidated Results	6
Section 1 – Major Risks	6
Section 2 – Significant Risks	10
Section 3 – Moderate Risks	14

Appendix

PACICC Risk Management Definitions	16
--	----

Risk Appetite Limit

PACICC's current Risk Appetite Limit is \$2.8 billion. PACICC measures its Risk Appetite Limit in relation to its ability to collect funds from Members over a two-year period, to pay for the eligible claims of insolvent Members. PACICC's maximum annual assessment capacity is 1.5 percent of the total covered direct written premiums of Members. Based on the most recent annual industry results for the year ended December 31, 2024, 1.5 percent of covered direct written premiums equates to \$1.4 billion. As of this Report, two times PACICC's annual assessment capacity of \$1.4 billion thus yields a Risk Appetite Limit of \$2.8 billion. In addition, PACICC maintains a Compensation Fund to address liquidity issues in the period immediately following a Member insolvency. The current book value of the Compensation Fund (as at July 31, 2025) is \$63.8 million.

Risk Tolerance

- **Less than \$1.4 billion:** This level of loss is within PACICC's single-year assessment authority. While significant, it can be addressed through a large assessment with Board approval, allowing for timely and manageable capital funding.
- **Between \$1.4 billion and \$2.8 billion:** This represents a substantial impact where a single-year assessment is insufficient to cover Member insolvency losses. Board approval would be required to implement a multi-year assessment or explore alternative funding strategies to meet obligations based on the potential for further systemic risk.
- **Greater than \$2.8 billion:** This exceeds PACICC's defined risk appetite threshold. Losses at this level cannot be funded through two years of annual assessments and assessments beyond this amount may cause financial difficulties for other Members, prompting the need for Board engagement with Participating Jurisdictions on next steps, including consideration of alternative capital/liquidity solutions to avert the potential for systemic risk.

Risk Register

A) Inherent Risk Overview

The table below summarizes the inherent risk rating for all Major/Significant/Moderate Risks in PACICC's risk profile.

PACICC Inherent Risk Rating Criteria

Impact Criteria Ranking	Low	Medium	High	Very High
a) Financial Risk	< \$60 million	\$60 million to \$1.4 billion	> \$1.4 billion to \$2.8 billion	> \$2.8 billion
b) Operational Risk	< \$100,000	\$100,000 to \$1 million	> \$1 million to \$2 million	> \$2 million
c) Reputation Risk	Isolated complaints	Regulatory involvement	Widespread media involvement	Government intervention
d) Regulatory Risk	< \$5 million	\$5 million to \$100 million	> \$100 million to \$500 million	> \$500 million
Likelihood Criteria Ranking	Very Low	Low	Medium	High
All risks	Occur < 1-in-100 years	Occur within 10 years	Occur within 5 years	Occur within 2 years

PACICC Inherent Risk Profile Grid (September 2025)

Inherent Risk Priority Coding

 High Risk	 Medium Risk	 Low Risk
---	--	--

Impact Rating	Very High	1-1		1-2		PACICC's Priority Risks (Risk Profile) 1-1 – Financial Risk A catastrophic earthquake leads to serial Member failure, where resulting insolvency costs exceed PACICC's risk appetite limit (twice its annual General Assessment capacity) 1-2 – Financial Risk A major external event (e.g. cyber-attack, wildfire, flood, geopolitical risk) causes the failure of one or more large companies, resulting in insolvency costs that exceed PACICC's risk appetite limit (twice its annual General Assessment capacity) 2-1 – Operational Risk The insolvency of a larger Member, group, or concurrent multiple Member failures, or another event (e.g. COVID-19), places extraordinary demands on human resources 2-2 – Financial Risk Faulty risk modelling fails to fully anticipate the impacts of climate change and exposes smaller regional companies to greater risk of failure 2-3 – Regulatory Risk Supervisory practices are below minimum IAIS standards 2-4 – Operational Risk Reliance on outsourced IT operations 3-1 – Regulatory Risk Regulators seek to exert inappropriate influence over PACICC governance, with adverse consequences 3-2 – Operational Risk Ineffective governance 3-3 – Financial Risk Key PACICC stakeholders lose confidence in PACICC's ability to fulfill its mandate 3-4 – Regulatory Risk Benefits unilaterally enhanced by government regulators beyond levels that PACICC Members would support
	High					
	Medium		2-1 2-4 3-3 3-4	2-2		
	Low		3-1 3-2		2-3	
		Very Low	Low	Medium	High	
Likelihood Rating						

B) Mitigation/Control Risk Overview

The table below summarizes the mitigation/control results and risk rating for all Major/Significant/Moderate Risks in PACICC's risk profile. Results are indicated with a checkmark ("✓") for a successful mitigation/control result and with an "!" if the control/mitigation effort is in progress or not yet successfully achieved.

	Mitigation/Control Risk Rating	Description
	Partially Satisfactory	Under 60% of the controls/mitigation efforts are operating effectively - Mitigation efforts/controls performed by PACICC Staff/Management do not successfully mitigate the inherent risks within the risk event
	Generally Satisfactory	60% - 80% of the controls/mitigation efforts are operating effectively - Mitigation efforts/controls performed by PACICC Staff/Management somewhat reduce and mitigate the inherent risks within the risk event
	Satisfactory	Over 80% of the controls/mitigation efforts are operating effectively - Mitigation efforts/controls performed by PACICC Staff/Management reduce and mitigate the majority of the inherent risks within the risk event

C) Residual Risk Overview

Responding to Significant Risks: Actions, Responsibility and Timing

The Risk Map below summarizes all Major/Significant Risks in PACICC's risk profile, the table combines the inherent risk rating with the control risk rating in order to arrive at the residual risk rating.

Residual Risk Priority Coding

Major risks (2)	Significant risks (4)	Moderate risks (4)
---	--	--

PACICC Residual Risk Map (September 2025)

Inherent Risk Rating	High	2-3 – Regulatory Risk Supervisory practices are below minimum IAIS standards	1-1 – Financial Risk A catastrophic earthquake leads to serial Member failure, where resulting insolvency costs exceed PACICC's risk appetite limit (twice its annual General Assessment capacity) 1-2 – Financial Risk A major external event (e.g. cyber-attack, wildfire, flood, geopolitical risk) causes the failure of one or more large companies, resulting in insolvency costs that exceed PACICC's risk appetite limit (twice its annual General Assessment capacity)	
	Medium	3-3 – Financial Risk: Key PACICC stakeholders lose confidence in PACICC's ability to fulfill its mandate 3-4 – Regulatory Risk: Benefits unilaterally enhanced by government regulators beyond levels that PACICC Members would support	2-1 – Operational Risk The insolvency of a larger Member, group, or concurrent multiple Member failures, or another event (e.g. COVID-19), places extraordinary demands on human resources 2-2 – Financial Risk Faulty risk modelling fails to fully anticipate the impacts of climate change and exposes smaller regional companies to greater risk of failure 2-4 – Operational Risk Reliance on outsourced IT operations	
	Low	3-1 – Regulatory Risk: Regulators seek to exert inappropriate influence over PACICC governance, with adverse consequences 3-2 – Operational Risk: Ineffective governance		
		Satisfactory	Generally Satisfactory	Partially Satisfactory

Mitigation/Control Risk Rating

D) Consolidated Results

The table below summarizes all Major/Significant/Moderate Risks in PACICC's risk profile, with attention on mitigation strategies and actions; responsibility for implementation; and the expected timing for implementation, or the achievement of specific milestones.

Items marked with a "!" under the "Mitigation/Controls" section below indicate that the associated control or mitigation effort is either still in progress or has not yet been successfully implemented. Advancing these items by completing or strengthening the mitigation measures may lead to an improved Mitigation/Control Risk rating. In turn, this may result in a lower residual risk rating, reflecting a more robust and effective risk position.

Section 1: Major Risks (Red) to be Addressed

Risk #	Inherent Risk Description	Inherent Risk Rating	Trigger for Adverse Impact	Mitigation/Controls	Mitigation/Control Risk Rating	Residual Risk Rating
1-1	Financial Risk: A catastrophic earthquake leads to serial Member failure; resulting insolvency costs exceed PACICC's risk appetite limit (twice its annual General Assessment capacity)	High	Earthquake leading to mega-catastrophic losses; causing the insolvency of one or multiple PACICC Member companies (or their parent companies)	! The Federal Department of Finance is considering "how to limit the system-wide risks an extreme earthquake could pose to federal P&C insurers." It is still unknown whether the government will agree to provide a financial backstop. It also remains unclear as to the form and timing of such support ✓ PACICC has briefed senior officials at the Bank of Canada, OSFI and CMHC on this issue ✓ PACICC actively participates in IBC's Earthquake Working Group, and has worked with IBC and ICLR to flesh out the details of potential changes to product coverage ✓ The Pre-Insolvency Regulatory Liaison (PIRL) Committee was created in 2015 to facilitate confidential communication with regulators ✓ PACICC has in place Guides to Intervention with Quebec, British Columbia, Alberta, Ontario and OSFI. The Guides include communication with regulators, beginning in Stage 2 ✓ PACICC has a strong working relationship with industry regulators ✓ PACICC's Board of Directors approved a formal Resolution Protocol to enable the Corporation to develop alternatives to liquidation prior to the liquidation of a Member Insurer ✓ PACICC released an estimate for industry capacity in May 2021 – the \$35 billion "tipping point" is widely accepted in	Generally Satisfactory	Major

			government policy circles. The paper is currently being updated ✓ In February 2023, PACICC secured a \$250 million revolving Line of Credit with a syndicate of Canada's top-six banks (RBC, CIBC, TD, BMO, Scotia bank and National Bank), to provide immediate short-term financial capacity ✓ In December 2024, PACICC secured high investment-grade credit ratings from two major credit rating agencies, enabling PACICC to secure larger, longer-term liquidity solutions if required ! PACICC recently received regulator approval for mandatory access to Members' (redacted) earthquake loss exposure data, for solvency monitoring purposes. This commercially sensitive information is protected by a newly established and comprehensive Data Governance Policy to ensure safe acquisition, processing, storage and handling ✓ To ensure that its Assessment mechanism is not overwhelmed earlier than previous modelling has suggested (the current Board-defined risk appetite limit is \$2.8 billion, twice PACICC's maximum assessment capacity), PACICC is revisiting its defined risk appetite limit incorporating the newly accessible reinsurance and loss exposure data ! Finance Canada is reviewing a formal request from PACICC to be designated as a "compensation association" under the Insurance Companies Act, enabling PACICC to serve as a trusted counterparty in crisis scenarios ! PACICC has proposed to OSFI that it incorporate a specific line in both the Minimum Capital Test and Branch Adequacy of Assets Test to reflect any multi-year PACICC Assessment obligations of PACICC Member Insurers (PACICC Assessment liabilities). In a period of stress, this could help to reduce the potential for systemic risk ✓ PACICC is liaising with regulatory partners and the Canadian Institute of Actuaries on the need to enhance stress testing around sequential events and aftershocks ! PACICC is working with OSFI and Assuris to develop an approach to enhance resolution planning and crisis management for Internationally Active Insurance Groups ✓ PACICC is seeking to enhance industry risk management best practices through a bi-annual ERM Benchmark Survey		
--	--	--	--	--	--

				of Members (latest results available in September 2025) and through information sharing at its three Risk Officer's Forum Meetings and three Emerging Risks Webinars each year ! PACICC conducted a desktop simulation exercise with BCFSa in 2024, and is working with OSFI (and other key federal and provincial industry decision-makers) on a similar simulation exercise in Ottawa in mid-December of this year. This will help to assess the readiness of key stakeholders to respond to an industry insolvency		
1-2	Financial Risk: A major external event (e.g. cyber attack, wildfire, flood, geopolitical risk) causes the failure of a top-15 Member; resulting insolvency costs exceed PACICC's risk appetite limit (twice its annual General Assessment capacity)	High	○ Insolvency of one or multiple PACICC Member companies (or their parent companies) ○ The failure of one or more of PACICC's largest Member companies – regardless of the cause(s) ○ Systemic model error – Most Canadian insurers use the same catastrophic risk models ○ An extensive major financial crisis leading to multiple insolvencies	✓ The Pre-Insolvency Regulatory Liaison (PIRL) Committee was created in 2015 to facilitate confidential communication with regulators ✓ PACICC has in place Guides to Intervention with Quebec, British Columbia, Alberta, Ontario and OSFI. The Guides include communication with regulators, beginning in Stage 2 ✓ PACICC has a strong working relationship with industry regulators ✓ PACICC's Board of Directors approved a formal Resolution Protocol to enable the Corporation to develop alternatives to liquidation prior to the liquidation of a large Member Insurer ✓ PACICC released an estimate for industry capacity in May 2021 – the \$35 billion "tipping point" is widely accepted in government policy circles. The paper is currently being updated ! In July 2025, PACICC received Finance Canada approval to establish a Bridge Insurer, PACICC-SIMA General Insurance Company (PGIC), to enhance its response capabilities in a range of distress/ crisis scenarios. PACICC is working to secure OSFI approval for PGIC to commence and carry on business (effective January 1, 2026). PGIC will remain dormant, ready for activation if/as required ✓ In February 2023, PACICC secured a \$250 million revolving Line of Credit with a syndicate of Canada's top-six banks (Royal, CIBC, TD, BMO, Scotia bank and National Bank) to provide immediate short-term financial capacity	Generally Satisfactory	Major

			○ Triggering events could include: higher inflation, adverse reaction to market volatility, and/or a sharp rise in interest rates	✓ In December 2024, PACICC secured high investment-grade credit ratings from two major credit rating agencies, enabling PACICC to secure larger, longer-term liquidity solutions if required ! PACICC recently received regulator approval for mandatory access to Members' (redacted) earthquake loss exposure data, for solvency monitoring purposes. This commercially sensitive information is protected by a newly established and comprehensive Data Governance Policy to ensure safe acquisition, processing, storage and handling ✓ To ensure that its Assessment mechanism is not overwhelmed earlier than previous modelling has suggested (the current Board-defined risk appetite limit is \$2.8 billion, twice PACICC's maximum assessment capacity), PACICC is revisiting its defined risk appetite limit incorporating the newly accessible reinsurance and loss exposure data ! Finance Canada is reviewing a formal request from PACICC to be designated as a "compensation association" under the Insurance Companies Act, enabling PACICC to serve as a trusted counterparty in crisis scenarios ! PACICC has proposed to OSFI that it incorporate a specific line in both the Minimum Capital Test and Branch Adequacy of Assets Test to reflect any multi-year PACICC Assessment obligations of PACICC Member Insurers (PACICC Assessment Liabilities). In a period of stress, this will help to reduce the potential for systemic risk ! PACICC is working with OSFI and Assuris to develop an approach to enhance resolution planning and crisis management for Internationally Active Insurance Groups ✓ PACICC is seeking to enhance industry risk management best practices through a bi-annual ERM Benchmark Survey of Members (latest results available in September 2025) and through information sharing at its three Risk Officer's Forum Meetings and three Emerging Risks Webinars each year		
--	--	--	---	---	--	--

Section 2: Significant Risks (Yellow) to be Addressed

Risk #	Inherent Risk Description	Inherent Risk Rating	Trigger for Adverse Impact	Mitigation/Controls	Mitigation/Control Risk Rating	Residual Risk Rating
2-1	Operational Risk: Extraordinary demands on human resources with insolvency of larger Member, group, or concurrent multiple Member failures, or another event (e.g. COVID-19 pandemic)	Medium	- Large or multiple insurer failures could require: high volume of requests for claims settlement authority and/or resolution of related issues; complicated assessment process; extensive queries - PACICC needs to outsource functions and could have difficulty administering this with existing staff - Loss of “key persons” at PACICC could exacerbate this risk	✓ PACICC has developed an Insolvency Contingency Plan to address this risk. The Plan was approved by the Board in November 2010 and is being updated with the assistance of a leading communications firm that has expertise in crisis management practices. Management believes that this updated Plan will provide an effective framework for mitigating this risk ✓ Regular dialogue takes place with regulators to discuss any troubled Members and to ensure adequate preparedness ✓ In 2020, PACICC developed a pre-approved pool of qualified firms that could be called upon to provide professional service support to the Corporation (or a third party) in the management of any Member Insurer insolvency that may occur over the next five years. A new pre-approved pool of qualified firms is being developed to cover the period 2026-2030, inclusive. PACICC has issued Requests for Standing Offer to leading firms across four disciplines: Actuarial Consulting Services; Advisory and Restructuring Services; Claims Management Services; and Legal Services. The standing offers (which do not involve retainer fees) provide PACICC with scalable options for specialized expertise to assist in quickly responding to an industry insolvency. The Agreements provide a clear understanding of proposed costs and the breadth of potential value-added services ! PACICC plans to conduct a half-day contingency plan review with our Board of Directors in June 2026	Generally Satisfactory	Significant

2-2	Financial Risk: Faulty risk modelling fails to fully anticipate the impacts of climate change and exposes smaller regional companies to greater risk of failure	Medium	○ Unmodelled major risk events (e.g., Wildfire, flood, etc.) resulting from climate change lead to multiple industry failures ○ Similar to the risk of Earthquake affecting the largest 15 companies in the industry, risks from other unanticipated extreme weather events are a direct threat to the operations of smaller regional companies	✓ PACICC's Board of Directors approved a Resolution Protocol to allow the Corporation to consider alternatives to liquidation ✓ PACICC has worked with regulators to be included throughout the regulatory process in Guides to Intervention, beginning in Stage 2 ✓ PACICC seeks to enhance industry risk management best practices through a bi-annual ERM Benchmark Survey and through information sharing at its three Risk Officer's Forum Meetings and three Emerging Risks Webinars each year ! In July 2025, PACICC received Finance Canada approval to establish a Bridge Insurer, PACICC-SIMA General Insurance Company (PGIC), to enhance its response capabilities in a range of distress/ crisis scenarios. PACICC is working to secure OSFI approval for PGIC to commence and carry on business (effective January 1, 2026). PGIC will remain dormant, ready for activation if/as required ! PACICC plans to conduct a half-day contingency plan review with our Board of Directors in June 2026	Generally Satisfactory	Significant
-----	---	--------	--	--	------------------------	-------------

2-3	Regulatory Risk: Certain provincial regulators have limited solvency supervision resources and expertise	High	○ Insurance legislation and/or regulations at the provincial level do not contain adequate standards for insurance solvency supervision ○ Practices do not meet the minimum standards of the International Association of Insurance Supervisors (IAIS) ○ Failure to execute supervisory activities due to inadequate staffing and resources	✓ PACICC advocates that P&C provincial solvency supervision must meet IAIS standards ✓ PACICC has developed an Intervention Guide and has updated its Model Winding-Up Order ✓ PACICC's PIRL Committee (consisting of the non-Industry Directors of the Board) facilitates sharing of sensitive information by regulators. It meets annually with OSFI, AMF and FSRAO ✓ PACICC has developed a Member Financial Performance tracking framework which is updated quarterly ✓ PACICC maintains a watchlist of potentially distressed Members and reviews these quarterly with the PIRL Committee. If the PIRL Committee instructs Management to do so, Staff reach out to specific regulators regarding watchlist insurers. Subject to regulatory non-objection, PACICC secures further financial information from such insurers (if any) on a quarterly basis and shares observations with the relevant regulatory authorities ✓ Intervention Guides have been signed with Quebec, British Columbia, Alberta, Ontario and OSFI. While these initiatives may encourage provinces with weaker solvency supervision to strengthen their practices, PACICC remains concerned about under-resourcing of supervisory staff ✓ PACICC first developed a training session for regulators in 2023 to improve their understanding of the Own Risk and Solvency Assessment (ORSA) Report and setting Minimum Capital Test (MCT) target levels. A similar session on performance metrics for IFRS 17 was held in September 2024. The next training session for regulators is planned for November 2025	Satisfactory	Significant
-----	--	------	---	--	--------------	-------------

2-4	Operational Risk: Reliance on IT outsourced operations	Medium	○ Service provider removes service ○ Equipment issues not readily resolved ○ Unauthorized access ○ Cyber attack: viruses, hacker, data breach	✓ PACICC uses an externally hosted, secure server that provides full back-up and recovery ✓ All staff are fully equipped to work remotely when required using their own computers ✓ PACICC's supplier of IT services (F12.net) conducts an independent audit annually of its "System and Organization Controls for Service Organizations" (SOC 2® Type 2 Report) and is ISO27001 certified. PACICC verifies the results of the SOC 2 testing program and if applicable, confirms the organization has taken reasonable steps to remediate findings and protect client data ✓ PACICC regularly reviews the cyber security measures it has in place and in Q2 2025 implemented an MDR service ✓ PACICC staff receive regular training and refresher courses from F12 on dealing with cyber security threats ✓ PACICC files are protected by two-factor authentication ! PACICC recently received regulator approval for mandatory access to Members' (redacted) earthquake loss exposure data, for solvency monitoring purposes. This commercially sensitive information is protected by a newly established and comprehensive Data Governance Policy to ensure safe acquisition, processing, storage and handling ✓ PACICC's supplier of cloud data exchange services (Thomson Reuters) conducts an independent audit annually of its "System and Organization Controls for Service Organizations" (SOC 2® Type 2 Report), conducts annual penetration testing and is ISO27001 certified. PACICC verifies the results of the SOC 2 and penetration testing programs and if applicable, confirms the organization has taken reasonable steps to remediate findings and protect client data ! PACICC has initiated discussions to begin conducting a routine independent internal audit to ensure controls to protect Member data are appropriately designed and are operating effectively	Generally Satisfactory	Significant
-----	--	--------	--	---	------------------------	-------------

Section 3: Moderate Risks (Green) – Not currently considered ‘Major’ or ‘Significant’

Risk #	Inherent Risk Description	Inherent Risk Rating	Trigger for Adverse Impact	Mitigation/Controls	Mitigation/Control Risk Rating	Residual Risk Rating
3-1	Regulatory Risk: Regulators seek to exert inappropriate influence over PACICC governance, with adverse consequences	Low	○ Insurance regulators seek to expand PACICC mandate to address restructuring ○ Regulators are encouraged by other stakeholders to merge PACICC with larger financial guarantee funds ○ Regulator requires all Board members to be non-Industry Directors	✓ PACICC has changed the terms of reference for its Board Chair. The Chair is now a Non-Industry Director (permanent basis), and serves a three-year term ✓ Regulators are invited to attend all Board meetings and receive copies of all meeting materials ✓ PACICC's Code of Ethics and Business Conduct is attested to annually by Directors and Staff	Satisfactory	Moderate
3-2	Operational Risk: Ineffective governance	Low	○ Fraud is not prevented or detected ○ Security breach not prevented or detected ○ Unauthorized access causes loss of data or compromises integrity ○ Incomplete or inaccurate reports prepared	✓ PACICC Board places significant emphasis on good governance practices ✓ PACICC has followed the lead of OSFI for enhancing governance in the industry – OSFI Guideline E-13 and CSA Guidelines	Satisfactory	Moderate
3-3	Financial Risk: Key PACICC stakeholders lose confidence in PACICC's ability to fulfill its mandate	Medium	○ Key PACICC stakeholders (e.g. Members, federal and/or provincial regulators) express concern about the Corporation's ability to protect policyholders' financial interests	✓ PACICC undertakes numerous initiatives to ensure that Members and regulators are updated regularly on ways that the Corporation actively fulfills its mandate, including: ✓ Annual CEO "Top 20 Tour" ✓ Quarterly newsletter (Solvency Matters) which provides an overview of current/emerging industry issues and PACICC actions to address same	Satisfactory	Moderate

				✓ Risk Officer's Forum Meetings and Emerging Risks Webinars featuring subject-matter experts who share information on industry risk management best practices ✓ Annual publication of PACICC's Why Insurers Fail research series reports, examining reasons for notable industry insolvencies and learnings		
3-4	Regulatory Risk: Benefits unilaterally enhanced by government regulators beyond levels that PACICC Members would support	Medium	○ Broader interpretation of insurance policy wording by Courts and regulators ○ Benefits could be raised beyond reasonable limits ○ Regulators force coverage of certain specialty lines, where the assessment base could be insufficient to fund the insolvency costs ○ Price of homes and insurance cover increasing – Claims limits could be inadequate, especially in the case of total property losses	✓ PACICC coverage limits were updated in March 2020 and reviewed in 2023. In 2025, the Auto claims limit was increased to \$425,000 and the Personal Property claims limit was increased to \$530,000. Annual inflation adjustments ensure that personal lines claims limits keep pace with inflation ✓ PACICC's Actuarial Advisory Committee developed an industry survey (by coverage line) to measure the high percentage of claims protected ✓ PACICC's Memorandum of Operation details excluded lines of coverage. Any new coverages not specifically excluded are covered by PACICC ✓ PACICC maintains a strong working relationship with CCIR's PACICC-Assuris Committee ✓ PACICC monitors financial guarantee fund best practices in other countries through its continued involvement with the International Forum of Insurance Guarantee Schemes (IFIGS) ✓ PACICC continues to advocate for the interests of retail insurance consumers and principally focuses on protection of home, auto and small business policyholders ✓ PACICC's Board can decide to cover losses beyond PACICC's limits in exceptional circumstances. In 2021, the PACICC Board examined the issue of "Hardship," for claims exceeding PACICC limits. In 2024, a Hardship Guideline was developed as a resource for PIRL Committee members, to inform future decision-making on this file	Satisfactory	Moderate

Appendix

PACICC Risk Management Definitions

Note: The following definitions are based on the ISO 31000 2009 Plain English Risk Management Dictionary, with minor edits as appropriate for PACICC's risk management environment.

Inherent Risk

Inherent Risk refers to the level of risk that exists in an activity or process before considering any internal controls or risk mitigation efforts.

Mitigation/Control Risk

Mitigation/Control Risk is a systematic approach to managing risks that organizations face in their operations. It involves establishing controls to mitigate potential threats and ensure that business objectives are met. Effective control measures serve as both preventive and corrective actions against risks, helping organizations to maintain stability and achieve their goals.

Risk

Risk is the “effect of uncertainty on objectives” and an *effect* is a positive or negative deviation from what is expected. Organizations strive to reduce uncertainty as much as possible. *Uncertainty* is a state or condition that involves a deficiency of information and leads to inadequate or incomplete knowledge or understanding. In the context of risk management, uncertainty exists whenever the knowledge or understanding of an event, consequence, or likelihood is inadequate or incomplete.

Risk management (Enterprise Risk Management – ERM)

Risk management refers to a co-ordinated set of activities and methods that is used to direct an organization and to mitigate or control the many risks that can affect its ability to achieve objectives. The term *risk management* also refers to the architecture that is used to manage risk. This architecture includes risk management principles, the risk management framework and risk management processes.

Risk management framework (Risk Management Statement)

A *risk management framework* is a set of components that support and sustain risk management throughout an organization. There are two types of components: foundations and organizational arrangements. *Foundations* include the risk management policy, goals and objectives, mandate, and commitment (Mission and Principles). *Organizational arrangements* include the plans, relationships, accountabilities, resources, processes and activities used to manage the organization's risks.

Risk management policy

A *risk management policy* documents an organization's commitment to risk management and clarifies its general direction and intention. Components include procedures, practices, controls, responsibilities and activities (including their sequence and timing).

Risk management process

A *risk management process* is one that systematically applies management policies, procedures, controls and practices to a set of activities intended to establish the context of risks, communicate with stakeholders and identify, analyze, evaluate, treat, monitor and review risks. To establish the *context* means to define the external and internal parameters that organizations must consider when they manage risk. External context includes external stakeholders, local, national, and international environment, as well as any external factors that influence an organization's objectives. Key drivers and trends include stakeholder views, perceptions and relationships, as well as social, cultural, political, legal, regulatory, financial, technological, economic, natural, and the competitive environment factors. Internal *context* includes an organization's internal stakeholders, the approach to governance, contractual relationships, capabilities, culture and standards.

Governance includes the organization's structure, policies, objectives, roles, accountabilities and decision-making processes. Capabilities include knowledge and resources; human, technological and capital.

Risk assessment

Risk assessment is a three-part process consisting of risk identification, risk analysis and risk evaluation. *Risk identification* is a process that is used to find, recognize and describe the risks that could affect the achievement of objectives. It also includes the identification of possible causes and potential consequences. Historical data, theoretical analysis, informed opinions, expert advice and/or stakeholder input could be used to identify an organization's risks. *Risk analysis* is a process that is used to understand the nature, sources and causes of the risks that are identified, and to estimate the level of risk. Analysis is also used to study impacts and consequences and to examine the mitigation and controls that currently exist. *Risk evaluation* is a process that is used to compare risk analysis results with risk appetite in order to determine whether or not a specified level of risk is acceptable or tolerable.

Risk Register (as defined by PACICC)

PACICC has compiled a *Risk Register* identifying risks that could cause PACICC not to meet its goals and objectives, including a brief assessment of each risk. More significant risks are then selected for in-depth review and, if deemed appropriate, escalated to PACICC's Risk Profile.

Risk Profile (as defined by PACICC)

PACICC's *Risk Profile* is a graphic presentation and written description of the major risks which could potentially have a significant, adverse impact on PACICC's ability to meet its goals and objectives. The description includes a comprehensive risk assessment (see definition), ranking of the impact and likelihood (probability) of the risk occurring, a description of consequences, and a description of the treatment (action plan) showing owners and timelines. The *Risk Profile* includes any risks that the organization must monitor and manage, regardless of type of risk (for example, financial, operational or reputational). A *consequence* is the outcome of an event and has an effect on objectives. A single event can generate a range of consequences that can positively or negatively affect goals and objectives. Initial consequences can also escalate through ripple effects. *Likelihood* (probability) is the chance of a risk occurring. *Likelihood* can be defined, determined, or measured objectively or subjectively; and it can be expressed qualitatively or quantitatively. *Severity* refers to the magnitude of a risk. Severity is estimated by considering and combining consequences and likelihoods. It can be assigned to a single risk or to a combination of risks. Severity is described as Level of risk per ISO 39000. *Risk treatment* is a risk modification process. It involves selecting and implementing one or more treatment options – for example, avoiding the risk, reducing the risk, removing the source of the risk, modifying the consequences, changing the probabilities, sharing the risk with others, or simply retaining the risk.

Risk appetite

(As defined by PACICC, with adaption / modification of ISO definitions of Risk Attitude and Risk Criteria). *Risk appetite* is a point of reference used to assess and evaluate the significance or importance of an organization's risks. It is used to determine whether a specified level of risk is acceptable or tolerable. An organization's risk appetite also defines its general approach to risk, for example, whether risks should be retained, shared, reduced or avoided, and whether or not risk treatments are implemented or postponed.

Residual risk

Residual risk is the risk left over by determining the inherent risk of an activity, then reducing the risk based on the organization's governance and control processes, and specific risk-mitigation measures. The key objective in monitoring risks on the Risk Profile is to ensure that action plans serve to reduce residual risk. Mitigation strategies may include removing the source of the risk, modifying the consequences, changing the probabilities, transferring the risk or retaining the risk.