Insolvency protection for home, automobile and business insurance customers
Issue 22 - June 2023

From the Desk of the President (Alister Campbell)
We Can’t Wait Another Decade
There are lots of good reasons why government decision-making in Ottawa moves at a different (and slower) pace than business. The Federal Government is bigger for a start, and priority-setting in such a monolith is never easy. ...Continued on Page 2.

Measuring the Current Level of PACICC Coverage (Grant Kelly)
To prepare for its formal, 2023 review of Coverage and Benefits, PACICC engaged Eckler Ltd. to assist in a survey of Member Insurers’ claims data. The purpose of the survey was to answer a central question: If a representative Member Insurer became insolvent today, what percentage of its claims would be covered... ...Continued on Page 4.

Emerging Issues (Mary Kelly and Anne Kleffner)
The 2010-2011 Canterbury Earthquake Sequence and Lessons for Canada
In New Zealand, the cost of losses arising from earth movement for residential properties is shared between the crown entity, Toka Tū Ake EQC (formerly known as the Earthquake Commission), and private insurers. ...Continued on Page 8.

PACICC Priority Issues: Updates
Review of Coverage and Benefits
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 beginning within three years. ...Continued on Page 11.

Risk Officer’s Forum (Ian Campbell)
Upcoming Risk Officer’s Forum meetings and webinars
Next Forum Meeting – Thursday, September 21
...Continued on Page 14.

No Solvency Analysis Article in this Issue
We regret that there is no Solvency Analysis article in this issue. Implementation of the new IFRS 17 accounting standard has led to data availability issues affecting both OSFI and MSA Research. Complete first quarter financial performance information arrived too late for publication deadlines. We will include Q1 and Q2 analyses in the next issue of Solvency Matters.
From the Desk of the President

We Can’t Wait Another Decade - by Alister Campbell

There are lots of good reasons why government decision-making in Ottawa moves at a different (and slower) pace than business. The Federal Government is bigger for a start, and priority-setting in such a monolith is never easy. The stakeholder map is also much more diverse when viewed from Parliament Hill rather than from corporate HQ in Toronto or Montreal or Winnipeg or Vancouver. Any decision needs to be carefully considered in terms of both previous precedent, and in terms of the potential consequences of establishing new precedent. Finally, business – generally speaking – has to answer simpler questions around cost/benefit, risk vs. reward, shareholder interest, etc. In contrast, the government only gets asked to solve the really hard problems – by the time the Federal Government is asked to intervene, the problems that have surfaced have proven unsolvable at all other private and public levels. So, given these circumstances, exercising patience in moving federal public policy forward is not only a courtesy and a virtue, but entirely reasonable and realistic.

In 2013, PACICC published its first Systemic Risk study and flagged the fact that there was a potential threshold (“Tipping Point”) in total insured losses above which the entire Canadian P&C system (and our industry-funded backstop, PACICC) would fail in its mission to protect Canadian insurance policyholders. We noted that the industry was highly-capitalized and well-reinsured and this threshold was very high. We also noted that there were (thankfully) only a very few perils which could cause such large insured losses – asteroid strike, space weather…and a mega-earthquake in British Columbia or the Quebec City/Montreal/Ottawa corridor. And of these awful risks, that just one was only a question of when…not if…quake.

The PACICC study was not initially greeted with enthusiasm (after all, who wants to hear such terrible news?), so other research institutions were also asked to conduct their own evaluations of the risk scenario that we had first outlined. Fine work was done by the CD Howe Institute (full disclosure…I am a Senior Fellow there) and by the Conference Board of Canada. The bottom line is that their analyses confirmed that of PACICC, and when we published our own updated version of the Systemic Risk model in 2016, the industry and third-party analysts were fully aligned around both the size and scope of the problem, and the compelling need for a federal backstop mechanism of some form to help mitigate the risk. And the Federal Government clearly listened… and responded rapidly, with an explicit commitment made in the 2017 Budget to address the earthquake risk. So far, so good.

We also noted that there were (thankfully) only a very few perils which could cause such large insured losses – asteroid strike, space weather…and a mega-earthquake in British Columbia or the Quebec City/Montreal/Ottawa corridor. And of these awful risks, that just one was only a question of when…not if…quake.
Since then, however, although there has been substantial “dialogue” (not sure that this is quite the right term, because the exchange has been largely one-way with industry doing all of the talking and government doing all of the listening) there has been no tangible evidence of progress. In 2021, we updated our Systemic Risk Model — determining an updated “Tipping Point” of around $35B in insured losses — and the “dialogue” resumed, but with no appreciable difference in the pace of decision-making or evidence that the Federal Government was moving closer to a decision.

In the most recent Federal Budget, there is an important affirmation of Ottawa’s awareness of the quake problem and a re-stated commitment to address it. But, that affirmation is buried deep in the text…and it is listed only in the last sentence of a section where Ottawa is making an important multi-year commitment (with specific action plans and a committed budget) to tackle the challenging public policy issues around increasing flood risk in the face of rapid climate change. It is worth quoting that final sentence in full — “In parallel, the Department of Finance and Public Safety Canada will engage with industry on solutions to earthquake insurance and other evolving climate-related insurance market challenges.”

A decade of work…and this sentence is what we have now achieved. While Climate Risk is real and may well pose existential risk for the human inhabitants of our planet over the next 50 or 100 years, the risk of a major quake is not correlated with “other climate-related” challenges. And our Systemic Risk Model can see no climate-related peril (wind, water or fire) capable of causing systemic collapse of our industry. Quake can do this…and it could happen today.

You will pardon me, I hope, if I now happen to express some real frustration. To be fair, there have been a few things (including a global pandemic) to distract the hard-working and capable team at Finance Canada from working through solutions to other tail-risk scenarios. But, reflecting on the now decade-long discussion, it does not feel unreasonable at this point to express some profound impatience. We simply cannot wait another decade.

The PACICC Board shared my impatience in our discussions this Spring. They have encouraged staff to make this frustration clear to Ottawa. We will do so. But the Board also encouraged us to explore other previously discarded options/alternatives. Having waited a decade for the obvious and appropriate actions to be taken by the obvious and logical solution provider, they have now challenged us to scope out a “Plan B.” More on this in the Fall. In the meantime, I hope all loyal readers enjoy a fantastic (and quake-free) Canadian Summer.

“**We simply cannot wait another decade.**”

Alister Campbell, President and Chief Executive Officer at PACICC
Measuring the Current Level of PACICC Coverage
by Grant Kelly

To prepare for its formal, 2023 review of Coverage and Benefits, PACICC engaged Eckler Ltd. to assist in a survey of Member Insurers’ claims data. The purpose of the survey was to answer a central question: If a representative Member Insurer became insolvent today, what percentage of its claims would be covered under the current (or potentially new) limits? The study was based on an analysis of more than 750,000 open claims, based on data submitted by Member Insurers representing almost 80 percent of the direct premiums written in Canada. This substantial database enabled Eckler to perform statistically significant analysis at a provincial level – a specific request of PACICC’s regulatory partners at the Canadian Council of Insurance Regulators (CCIR). Following is a summary of our findings.

**PACICC Protection as a percentage of claim counts**

<table>
<thead>
<tr>
<th></th>
<th>Auto</th>
<th>Personal Property</th>
<th>Commercial Property</th>
<th>Commercial Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>98.2%</td>
<td>99.1%</td>
<td>98.0%</td>
<td>96.9%</td>
</tr>
<tr>
<td>2023</td>
<td>97.1%</td>
<td>98.9%</td>
<td>95.9%</td>
<td>94.1%</td>
</tr>
</tbody>
</table>

*Source: Analysis of Member Insurer data conducted by Eckler for PACICC*

**Finding #1: Overall, PACICC’s current benefit levels remain excellent**

Our current limits were approved by the PACICC Board in 2020. At that time, PACICC estimated the level of protection using the results of a survey of 2018 claims. In 2020, the new $500,000 claims limit for Personal Property fully covered 99.1% of outstanding claims at PACICC Member Insurers. This level of protection has eroded slightly over the past three years. In 2023, PACICC estimates that 98.9% of policyholders’ reported Personal Property claims would be fully protected at the $500,000 policy limit. This means that 1.1% of policyholders would be only partially protected by PACICC. These policyholders would receive the full $500,000 compensation amount from PACICC, but would be required to wait for the legal system to yield any additional compensation that might be made available from the estate of the insolvent insurer over time.
Finding #2: The Loss curve in the tail is steep

PACICC also measured the level of protection relative to the value of claim reserves. The data shows that the 1.1% of policyholders that are partially protected have claims much larger than the PACICC limits. This 1.1% of claims represents 15.2% of all Personal Property claims reserves. What this means is that when a claim is higher than the PACICC limit, it is much larger than $500,000.

![PACICC Protection as a percentage of claims reserves](image)

Source: Analysis of Member Insurer data conducted by Eckler for PACICC

Finding #3: Inflation has a compounding impact over time – across all lines of coverage

Finding #4: The steepness of the tail in Commercial Lines is even more significant

An erosion in PACICC protection was found in all lines covered by PACICC. The current policy limit of $400,000 provided to Auto insurance policyholders fully covered 98.2% in 2020. In 2023, 97.1% of Auto insurance policyholders would be fully protected – meaning that only 2.9% of Auto policyholders would be partially protected. It is important to note that the “steep” curve discussed above also applies in Auto. The 2.9% of Auto claims represents 28.6% of all Auto reserves.

The erosion was even more pronounced in Commercial lines. Protection levels in Commercial Property decreased from 98.0% in 2020 to 95.9% in 2023 – meaning that 4.1% of Commercial Property policyholders would be only partially protected. And, this 4.1% of claims accounts for 53.1% of all Commercial Property reserves.

94.1% of Commercial Liability policyholders would be fully protected in 2023. This is lower than the 96.6% protected in 2020. In line with the results for Commercial Property described above, the 5.9% of Commercial Liability claimants that would be partially protected in 2023 represents 46.7% of the industry’s reserves for those lines of business.
Finding #5: There is no need to adjust PACICC benefit limits at the provincial level – protection levels are consistent across Canada

The massive database made available for the 2023 claims survey allowed PACICC to measure the level of protection by province. With one exception, the survey found that there was very little difference in the number of policyholders protected by the current limits across Canada. In part, this can be explained by a commonality of average costs in retail lines of business (cost to repair or replace car, cost of construction to renovate/repair damaged homes). More significantly though, the odds that a policyholder suffers a total loss claim yielding claims costs in excess of our limits prove to be roughly similar in every province.

The one exception is British Columbia (BC) Auto policies. PACICC covers policyholders that purchase optional Auto insurance. PACICC has a special limit of $60,000 for BC Auto. This special limit was introduced to reflect the impact of the public insurer, Insurance Corporation of British Columbia (ICBC). The current BC Auto limit protects 85.1% of policyholders. This is materially lower than the 97.1% national average.

Finding #6: The current PACICC Hardship Claim administration process is not fit for purpose – the number, cost and complexity of claims out in the tail needs new solutions

Part of PACICC’s mission is to maintain the confidence of policyholders in Canada’s P&C insurance industry. While the level of PACICC protection is high, the Corporation’s Memorandum of Operation allows policyholders to apply for compensation in excess of established benefit limits – if the existing policy limits would cause “hardship” to policyholders. Each decision regarding additional “hardship” compensation requires a unanimous decision of the PACICC Board of Directors. This process has worked well in the 13 insolencies managed by PACICC in the past. However, the last P&C insolvent insurer in Canada failed before the advent of social media. Policyholders are privy to far more information and opinion from third parties. And a natural catastrophe-triggered default would likely yield a much higher number of “hardship” claims resulting from the total loss of personal property.
In 2021, the Board approved a Hardship Policy that delegated the vetting of potential hardship claims to the Pre-Insolvency Regulatory Liaison Committee (PIRL), made up of our non-Insurer Directors… but final decisions still rest with the full Board. The 2023 Claims survey has allowed PACICC to estimate exactly how many of these policyholders there could be in a range of scenarios.

**Expected number of claims above PACICC limits**

<table>
<thead>
<tr>
<th></th>
<th>Top 5 insurers</th>
<th>Middle 10 insurers</th>
<th>Small insurers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto</td>
<td>1,635</td>
<td>518</td>
<td>56</td>
</tr>
<tr>
<td>PP</td>
<td>144</td>
<td>42</td>
<td>6</td>
</tr>
<tr>
<td>CP</td>
<td>188</td>
<td>48</td>
<td>4</td>
</tr>
<tr>
<td>Liability</td>
<td>513</td>
<td>99</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,480</strong></td>
<td><strong>707</strong></td>
<td><strong>78</strong></td>
</tr>
</tbody>
</table>

*Source: Analysis of Member Insurer data conducted by Eckler for PACICC*

If a large insurer were to become insolvent, an estimated 2,480 policyholders would be only partially compensated. The failure of a mid-sized PACICC Member Insurer would result in more than 700 policyholders being only partially compensated. The failure of a small PACICC Member Insurer would result in 78 policyholders being only partially compensated. The larger the number of unhappy policyholders, the greater the risk of consumers, regulators and policymakers losing confidence in the private insurance system, likely resulting in the introduction of additional industry regulations or even further government intrusion into the insurance market.

In determining appropriate benefit levels in 2023, PACICC’s Board must balance all three elements of PACICC’s mandate. That is…protecting policyholders from undue loss…managing the cost of future insolvencies…and maintaining public confidence in the P&C insurance industry. PACICC will be sharing these Findings with the industry as part of a formal Consultation process this Summer. Industry feedback and answers to questions posed in the Consultation Paper will inform staff recommendations to our Board in November 2023. Amendments (if any) which are approved by our Board at that time would then go to the members of CCIR for their review and approval. Any changes approved by both our Board and our regulatory partners would then be put to our Membership for potential approval at our AGM in April of 2024.

Grant Kelly, Chief Economist, Vice President, Financial Analysis and Regulatory Affairs
Emerging Issues

The 2010-2011 Canterbury Earthquake Sequence and Lessons for Canada - by Mary Kelly and Anne Kleffner

In New Zealand, the cost of losses arising from earth movement for residential properties is shared between the crown entity, Toka Tū Ake EQC (formerly known as the Earthquake Commission), and private insurers. The crown entity provides the first layer of mandatory coverage and private insurers compete to provide coverage for losses in excess of the base layer, and every homeowner with private home insurance pays a flat fee based on the total sum insured to the crown entity for earthquake coverage.¹

In 2010, prior to the Canterbury earthquake sequence (CES) Toka Tū Ake EQC had claims paying capacity of 8.6 billion NZD, well above the modelled maximum foreseeable loss of 8 billion NZD, and an unlimited government guaranty provided additional protection. Private primary insurers also had solvency requirements that required them to maintain claims-paying capacity for a 1-in-500 year earthquake event.

The 2010-2011 CES, which occurred on a series of previously unidentified active faults in the eastern portion of the South Island, was a long-lived, complex sequence of earthquakes. It started with the M7.1 Darfield earthquake on 4 September 2010 and was followed by four strong aftershocks, including the devastating M6.3 Christchurch earthquake on 22 February 2011, which resulted in significant property damage and 185 deaths. The total insured losses from the CES were 31 billion NZD (18 percent of New Zealand’s GDP) and the cost to the commission was 11.5 billion NZD, effectively bankrupting the entity.

After the CES, reinsurance costs quadrupled for Toka Tū Ake EQC and the 2016 Kaikōura earthquake further depleted its remaining surplus holdings. Despite increases in the levies collected from residential property owners in 2012 and again in 2017, a government bailout was required. The commission received government funding of 50 million NZD in 2018 just so that it could remain operational and pay claims.

The CES also created significant disruptions in the private insurance market: claim costs exceeded the limits of reinsurance for eight insurers and 10 insurers had insufficient funds and reinsurance to fully fund claims costs. Some insurers were able to purchase after-the-event reinsurance, while

¹ In 2022, Earthquake Commission (EQC) changed its name to Toka Tū Ake – Natural Hazards Commission and it is now known as Toka Tū Ake EQC. Prior to 2019, Toka Tū Ake EQC was responsible for the first 100,000 NZD in dwelling losses and 20,000 NZD in contents. This sharing arrangement was changed in 2019 as a response to the Canterbury earthquake sequence and again in 2022, so now Toka Tū Ake EQC is responsible for the first 300,000 NZD in dwelling losses and private insurers cover remaining losses.
others received capital injections from their parent; however, a small number of specialized regional insurers faced insolvency. Western Pacific was unable to obtain additional capital and entered liquidation in April 2011 and the second largest insurer of residential property, AMI, was on the brink of failure.

AMI wrote 35 percent of residential properties in Christchurch in 2010. It did not have enough resources to pay claims and, as a mutual insurer, had no way of raising funds. The potential failure of AMI was considered extremely disruptive to recovery efforts and therefore to keep it operational, AMI received several cash injections, totalling 500 million NZD, from the government.

**The CES and relevant takeaways for Canada**

The CES is a novel event for two reasons. Prior to the CES, Christchurch was not considered a hotspot for earthquakes. Secondly, even though the February 2011 earthquake in Christchurch was not excessively strong, it occurred in a major city in which over 75 percent of households had residential earthquake insurance. As a result, insurers (both public and private) were responsible for a significant portion of losses, and the CES proved to be the second highest insured earthquake loss ever. Not surprisingly, the earthquakes led to significant permanent repricing of insurance and reinsurance coverages as earthquake models were refined to reflect learnings from the CES.

The implications are clear for Canada. A moderate quake could create significant insured losses in western Canada... And even though take-up rates for earthquake insurance are significantly lower in eastern Canada, exposure from fire following coverage could also create significant exposure for the private insurance market.

The impact of the CES on the New Zealand insurance market highlights several takeaways relevant to the current policy discussion regarding the potential role of the federal government in supporting the resiliency of the Canadian P&C insurance market in the face of a catastrophic earthquake.

The first takeaway is that a peak peril cannot be insured solely by private insurance markets, as private insurers cannot efficiently assume extreme tail risk. Whether structured as a guaranty (where funds do not need to be repaid) or a liquidity provision, the financial backing of the government is necessary to spread the cost of an extraordinary loss over time and over a broader population base to ensure the resiliency of the insurance market.

Secondly, this financial backing may not be sufficient to ensure recovery. The impact of the CES demonstrated that it is not possible to create a mechanism, independent of unplanned *ex-post* government intervention, that is sufficiently robust in the face of a novel event or peak peril. Despite the Commission’s claims-paying capacity and the health of the private insurance market, the losses arising from the CES were so large that the federal government had to intervene to protect the solvency of both Toka Tū Ake EQC and AMI while allowing some smaller insurers to fail.

The February 2011 earthquake in Christchurch was not excessively strong and yet it resulted in significant insured losses. The implications are clear for Canada. A moderate quake could create significant insured losses in western Canada, where take-up rates for earthquake coverage for
residential properties range from 10 percent to 70 percent in British Columbia (with the highest take-up rates in Victoria and the Lower Mainland). And even though take-up rates for earthquake insurance are significantly lower in eastern Canada, exposure from fire-following coverage could also create significant exposure for the private insurance market.

There has never been an earthquake in Canada that has generated significant insured losses. As such, it seems reasonable that such an earthquake would be deemed a novel event. The New Zealand experience suggests that significant dislocation would occur in the market for earthquake coverage after such an event. Currently most, if not all, property insurers in B.C. offer earthquake coverage, so it is likely that there will be an immediate short-term reduction of earthquake coverage after an event. Businesses and households might be unable to change insurers, and some high-risk properties will not be able to find protection. Reinsurance costs will increase, resulting in high premiums for property owners that are still able to purchase coverage.

The repricing risk will likely be long term, as learnings from the earthquake result in significant changes to earthquake models. Currently there does not exist a pool to provide earthquake coverage for high risk-insureds in Canada. After a significant quake, such a pool will likely be required, and premiums will probably need to be subsidized to support affordability initiatives.

To support the primary insurance industry in New Zealand, the federal government modified land zoning to ensure that rebuilding was not permitted in the highest-risk locations. It also stabilized the primary private and public insurance markets to ensure that reinsurers would be willing to provide coverage in the future. The federal government noted that both these actions were necessary to ensure that primary insurers and reinsurers would still be willing to offer coverage in New Zealand. Similar actions might also be required in Canada after a significant earthquake.

A final takeaway from the CES relates to the settlement of losses after a catastrophic event. After the CES the New Zealand government quickly realized that a cash settlement approach (providing cash directly to insureds) was not an efficient mechanism to support recovery. To ensure homeowners had access to repairs and to reduce inflation arising from supply-side competition (homeowners competing to secure materials and labour), the Canterbury Home Repair Program was created to provide a managed repair approach.

Although a Canadian response after a novel earthquake would not entail supporting a public insurer, the actions of the New Zealand government highlight the fact that government interventions, including the assumption of tail risk, are likely to be required to support the resiliency of the Canadian P&C insurance market in the face of a large catastrophic event. While the full range of interventions required to support the Canadian P&C insurance market after a large event are not fully known, the best time to have discussions over possible interventions is before and not after a novel event.

Mary Kelly, Professor, Finance and Chair in Insurance
Assurance of Learning Co-ordinator, Wilfrid Laurier University
Anne Kleffner, Professor and Chairholder, Insurance and Risk Management,
Haskayne School of Business, University of Calgary
**PACICC Priority Issues: Updates**

*Review of Coverage and Benefits*

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 beginning within three years. The regulators also asked that we specifically incorporate a province-by-province analysis of the adequacy of PACICC benefit limits in the next review.

The 2023 Coverage and Benefits review was launched on schedule last fall, with an industry-wide data call that secured key data from more than 750,000 individual claims files. Eckler Ltd. was contracted to collect and ensure the confidentiality of this information. This massive sample will enable PACICC to properly evaluate the adequacy of current limits – with statistically significant results – including at the provincial level. A summary of the initial findings from the claims survey can be found in this newsletter.

The 2023 review will rely on three guiding principles – Fairness, Transparency/Clarity, and Modernization. It will examine: extent of coverage, benefit limits by province, and the hardship claims appeal process.

PACICC will release an Industry Consultation Paper this Summer seeking feedback from Member Insurers on potential changes to benefit levels. At the PACICC Board’s April 2023 meeting, Directors noted that, while the level of consumer protection remains high, there is evidence of erosion in the three years since the last review. If the next review will not occur until 2028, should PACICC consider introducing annual adjustments to benefit levels…at least for personal lines? If yes, what should the annual adjustment be? We are very much looking forward to comprehensive industry feedback on these questions through this Consultation exercise. The input will inform options to be developed by staff and presented to our Board at our Fall meeting in November. Any approved changes would then require regulator and Member support and would take effect after our AGM in April 2024.

*Strengthening Canada’s Resolution Infrastructure*

It is increasingly clear to PACICC that the type of default most likely to require our engagement is changing. Historically, we have primarily seen the failure of smaller, regional insurers. While we remain exposed to the domestic failure of a single, smaller Insurer Member, there are fewer and fewer of these. We also remain exposed to the failure of a local Branch of a larger global insurer that defaults overseas (as happened in 2004). However, the increased pace of consolidation means that the next failure is more likely to be that of a medium-sized or even larger insurer – perhaps triggered by climate-change-fuelled natural catastrophe – which places new pressures on our current operating model.
International best practice indicates that emergency liquidation of a large insurer may well result in adverse outcomes for policyholders, Member Insurers and regulators. As noted in PACICC’s 2020 and 2021 Consultations with Member Insurers, some form of managed “resolution” in such cases may indeed lead to better outcomes for policyholders and prove to be much less expensive for Member Insurers, compared to liquidation.

PACICC was invested with significant resolution powers when it was founded in 1989. In our review of established best practice regarding “resolution infrastructure,” as defined by the Financial Stability Board (FSB) and the International Association of Insurance Supervisors (IAIS), we confirmed that there was in fact one significant gap in the current operating model for the Canadian P&C insurance sector – the absence of a “bridge insurer” mechanism. This gap appeared more significant when we compared ourselves with Canada’s banking sector (CDIC has full “bridge bank” powers) and, more significantly, Assuris – PACICC’s peer organization for life insurance, which has had an OSFI-chartered “bridge insurer” entity (CompCorp Life) in place for many years.

At the instruction of our Board, PACICC staff approached OSFI regarding its willingness to consider an application for the establishment of an OSFI-chartered and supervised “bridge insurer” for PACICC. OSFI gave initial indication of its openness to such an application and provided us with the outline for a streamlined application process. That process has now been initiated and a series of “use cases” have been reviewed with our Board. The OSFI application itself will represent a major work initiative for PACICC staff. While the timeline for the whole project is still in development, we are hoping to have a first draft of an application ready to discuss with OSFI before the end of June 2023. This will be just an initial step in a longer process. There will be continued discussions with government decision-makers and with the industry throughout 2023 and 2024, as PACICC seeks to enhance its ability to protect Canadian policyholders from future insolvencies.

Managing Systemic Risk

In 2013, PACICC published its first “Why Insurers Fail” research paper which established the threshold beyond which a major catastrophic event would overwhelm Canada’s property and casualty (P&C) insurance industry, and cause PACICC to fail in its mission to protect Canadian policyholders. This paper was updated in 2016 and 2021. PACICC’s current estimate is that a catastrophic event resulting in insured losses greater than $35 billion would be the “tipping point.” While this was a controversial proposition 10 years ago, much more work has been done on this subject over the intervening years. The threat of a major catastrophic event causing serial contagion is now widely accepted and understood within Canada’s P&C insurance industry.

Since 2015, PACICC has worked with Insurance Bureau of Canada (IBC) to develop proposals and submissions to federal and provincial governments, seeking an industry backstop mechanism to ensure that policyholders – and the system – are better protected. PACICC’s position in these discussions has been consistent. PACICC was not designed to act as the insurer of last resort following a catastrophic earthquake in Canada. Most, if not all, other developed nations that face significant earthquake risk have some form of government backstop or mechanism in place. The absence of such a program is a major gap in Canada’s public policy framework.
The 2023 Federal Budget delivered a major, new development in this long-running policy file:

“The government will engage provinces and territories on the development and implementation of the program, as well as the requirements for its long-term fiscal sustainability, including cost-sharing and risk mitigation. In parallel, the Department of Finance and Public Safety Canada will engage with industry on solutions to earthquake insurance and other evolving climate-related insurance market challenges.”

While this news is welcomed, the Budget provided no timeline for an earthquake solution. PACICC is forced to face the reality that, despite 10 long years of working on this file, there is unlikely to be a government earthquake solution (backstop/program) over the medium term. This is most disappointing. In April 2023, the PACICC Board instructed staff to begin developing options for a “Plan B” – including potential, incremental changes to PACICC’s contingency mechanisms to better mitigate systemic risk. It is incumbent on our Board to plan for scenarios where no material progress has been made in these discussions with Ottawa. Options for a “Plan B” will be presented to the PACICC Board at its November 2023 meeting.
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.

Next Forum Meeting:
Thursday, September 21

Topic: CEO Perspective on ERM
Speaker: Marc Lipman – (Attorney in Fact in Canada for Lloyd’s Underwriters and President, Lloyd’s Canada)

Topic: Third-Party Risk
Speakers to be announced

Topic: 2023 PACICC ERM Benchmark Survey Findings
Speakers: Sonia Kundi – (CRO, Zurich Canada)
Phil Traicus – (Vice President, ERM, The Wawanesa Mutual Insurance Company)
Ian Campbell – (Vice President, Operations, PACICC)
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.

Next Emerging Risks Webinar:
Thursday, October 19
Topic: Geopolitical Risk
Speaker: Jonathan Miller – (Senior Fellow and Director of Foreign Affairs, National Defence and National Security, Macdonald Laurier Institute)

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 647/264-9709.