Solvency Matters

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

Insolvency protection for home, automobile and business insurance customers

Issue 23 - September 2023

From the Desk of the President

Is Great Good Enough? - by Alister Campbell

These past few months, PACICC has been closely engaging with our Members as part of a comprehensive Review of Coverage & Benefits – our 2023 #1 Priority Issue. The discussion has been fascinating. The analysis that we have completed as a baseline for the Review provided compelling evidence that PACICC offers Canadian policyholders a very high level of protection. In fact, should a PACICC Member fail, on average, roughly 98% of all personal lines policyholders would be protected to the full value of their claim (the remaining 2% would be partially protected – up to the current policy limits. Even for Commercial lines the protection levels are quite high (96% for Commercial Property and 94% for Commercial Liability). As the CEO of one Member Insurer said to me during the discussions, "These numbers look great!" And they do.

But subjective perspectives aren't as compelling to regulators as objective ones. So, at PACICC, we have been working to answer the question…How "great" are they, really? And, are they equally fair across all provinces and territories? It is actually quite difficult to provide a proper benchmarking comparison because, at least as far as we know, no other "Insurance Guarantee Scheme" (as entities like PACICC are known internationally) conducts as comprehensive a comparative analysis as we do here in Canada. Domestically, it would appear that our 98% number does indeed match up well with what is provided by the Canadian Deposit Insurance Corporation (CDIC) for bank depositors (96%, the last time that a number was reported), Assuris for life insurance policyholders (historically targeting 90% – see Guest Column by Assuris CEO Paul Petrelli in this issue for more on their recent reforms) and the Canadian Investor Protection Fund (CIPF) for investors. But while precise numbers for comparison are not available internationally, it is important to appreciate that, in many of these other jurisdictions, coverage is provided up to policy limits…and in fact, this might explain the absence of any apparent effort to analyze proportions of coverage in other parts of the world.

"As the CEO of one Member Insurer said to me during the discussions, "These numbers look great!" And they do."

So…is our definition of "great" really good enough? Our starting answer has to be "Yes"! PACICC was never designed to provide unlimited coverage to Canadian policyholders of an insolvent insurer. There was a clear intent, among insurers and regulators, to minimize moral hazard from the outset. Complex specialty lines were excluded from coverage entirely, and limits for Commercial property and liability claims were set at amounts which would be adequate for most small business claims, but certainly not adequate for larger claims (most likely incurred by larger and more sophisticated insurance buyers with an obligation and capability to select their carrier(s) carefully).

Is that affirmative response true everywhere in Canada though? In 2020, when we last reviewed our benefit limits, we were confidently able to affirm that PACICC would provide comprehensive coverage to 98%+ of Canadian personal lines policyholders. But we didn't have the data to answer a question from the members of the Canadian Council of Insurance Regulators (CCIR) regarding the degree

to which the coverage was comparably high in every province of Canada. As part of this year's review, we initiated a data call to the industry and received 750,000 data points of open claims from roughly 80% of the industry, to help us answer that question. And, great news…we found that PACICC limits are equally robust across all provinces!

One finding which was clear in reviewing the new data however, is that in a world of higher inflation, PACICC benefit limits have eroded, even in the brief period between 2020 and 2023. So, we have added questions to our industry Consultation Paper regarding the possible incorporation of "inflators" (at least for personal lines), as an embedded component of the go-forward PACICC operating model. The PACICC Consultation Paper also asks Members to give us their considered views on broader questions regarding our philosophical approach to benefit limits, as well as several more practical questions regarding management of "hardship" claims. We are looking forward to seeing what our Members think about all of these possible modernizing reforms.

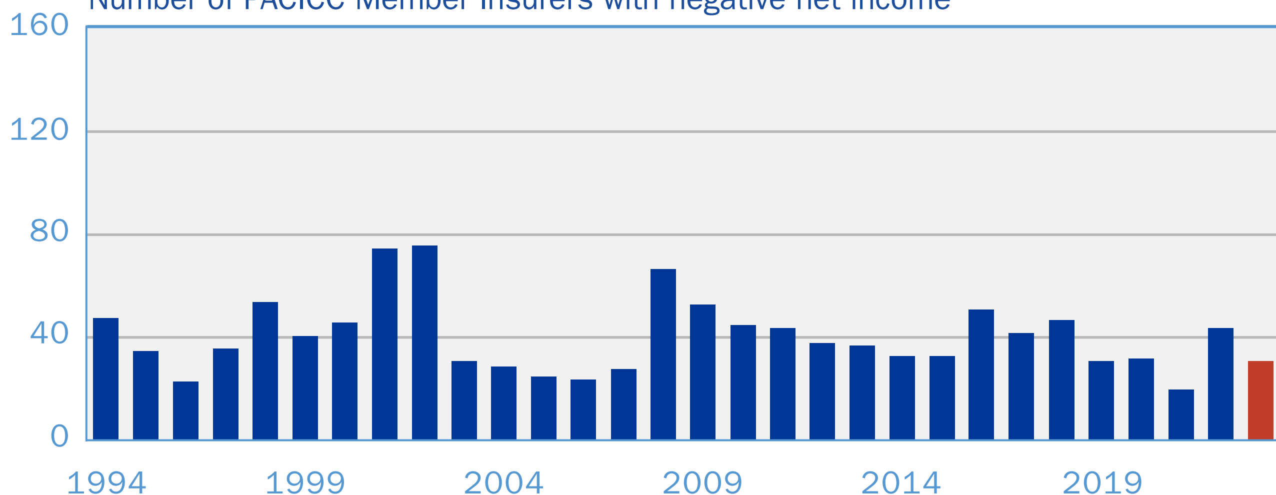
The PACICC model has served both Canadian policyholders and the industry well since our incorporation back in 1989 – through 13 insolvencies. While we have not been tested recently, it is critical that we ensure that the current operating model be just as effective in response to the insolvencies that will occur in the future. A regular review cycle is an essential component of this corporate hygiene. Thank you in advance to all the Members who have engaged so thoughtfully in this process. We look forward to sharing results of our consultation exercise with our Board, our Members and our regulatory partners later this Fall.

Alister Campbell, President and Chief Executive Officer at PACICC

Analyzing IFRS 17 Financial Statements – return to first principles - by Grant Kelly

This is just the second quarter that Canadian P&C insurers have reported their financial results according to International Financial Reporting Standards 17 (IFRS 17) and much uncertainty and confusion remains. More mature readers will remember when Canada moved from imperial measurement to the metric system, causing numbers on road signs to suddenly appear larger than when speed and the distance between places was based on miles. The physical distance between places didn't change, but the numbers were different, and it took some time for drivers adjust. IFRS 17 is similar, as it represents a fundamental change in financial reporting for insurers and makes comparisons to past results using the industry's traditional financial ratios invalid. But, just as the distance from Montreal to Toronto didn't actually change when the measurement system changed, industry results for essential items such as solvency almost certainly haven't altered much either.

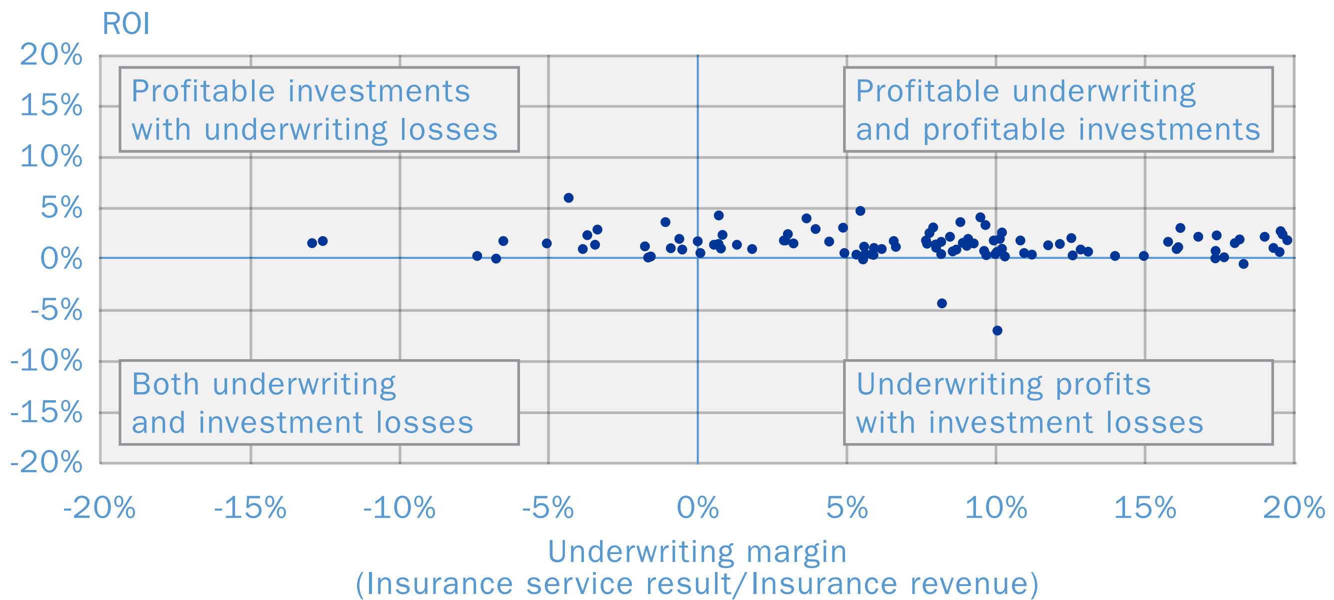
So…we start PACICC's analysis of industry performance by going back to fundamentals – focusing on profitability and the capital base of Member Insurers. History teaches us that the most important factor for the solvency of an insurance company is sustained profitability. A profitable insurer is able to both honour the promises made in the insurance contract and grow its capital base.



Source: PACICC based on data from MSA Research

In the first six months of 2023, 31 PACICC Member Insurers reported negative net incomes. This is a full 18% of PACICC's 168 Member Insurers. This number appears to be within a "normal" range for Canada's P&C insurance industry. In fact, over the past five years, on average, 31.6 insurers report losses each year – so, the first six months of 2023 are exactly average by this measure. It is important to keep in mind that it is normal for a portion of the P&C insurance industry to report losses. The question facing regulators (and PACICC) is always whether the financial losses of these insurers represent a temporary blip that can be quickly corrected, or are part of a longer trend of losses that erode capital and undermine business and consumer confidence.

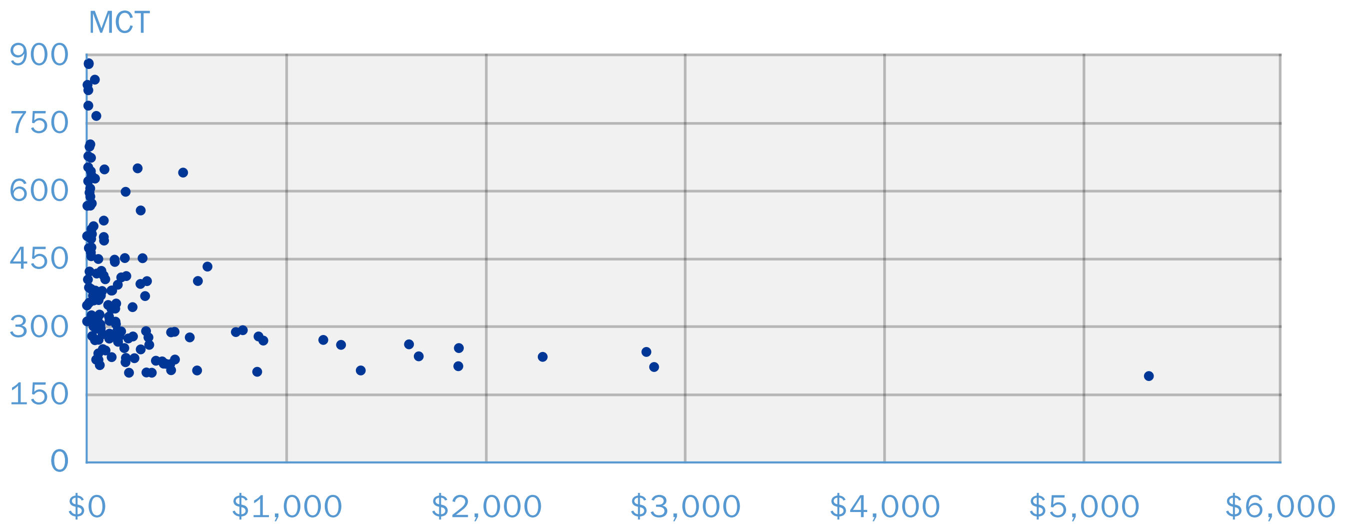
PACICC also examined the source of earnings (or losses) for insurers in the first half of 2023. Insurers have two primary sources of income: underwriting (selling insurance) and investing. Each insurer has its own appetite for risk, and each is in the business of measuring and managing that risk. Of the approximately 170 Member Insurers that reported results this period, 127 reported positive income in both Insurance Results and Investments Results. ("Insurance Result" is the new IFRS 17 term, replacing "Underwriting Profit/Loss"). Another 25 Member Insurers reported that their negative Insurance Results were offset by profits on their investments. Nine insurers reported negative Investment Results. But all nine of these companies reported positive Insurance Results. This means that no PACICC Member Insurer reported both negative Insurance Results and Investment Results in the first six months of 2023.



Source: PACICC based on data from MSA Research

An important discussion point in the transition to the new accounting standard was its impact on the capital base of each individual insurer. In general, IFRS 17 provided a small one-time jump in the result for Member's Minimum Capital Test (MCT) or Branch Adequacy of Assets Test (BAAT). As a result, regulators felt forced to adjust that test to maintain consistency in the industry's capital base. The result? Through the first six months of 2023, all insurers operating in Canada's P&C insurance industry are maintaining adequate capital according to this measure.

Sources of insurer profitability



Source: PACICC based on data from MSA Research

While it is "early days" yet, with much transition work still lying ahead (including key decisions around corporate accounting/reporting policies at year-end), Canada's P&C insurers appear to have successfully made the transition to the new IFRS 17 financial reporting standard. While it will take time to develop new, industry-wide performance metrics, the fundamentals haven't changed. Sustained underwriting profitability and prudent levels of capital remain the critical benchmarks that PACICC will continue to monitor at a Member and industry level.

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

Steady as she goes - by Grant Kelly

Canada's P&C insurers are in the middle of the industry's first year of reporting financial results under IFRS 17. These reporting requirements have changed the presentation and wording of the industry's financial results. As part of the transition, insurers were required to present their 2022 results under IFRS 17, to allow for some comparison.

"Insurance Revenue" represents the total value of premiums collected by insurers. It is comparable, but not the same, as what used to be called Gross Written Premiums (in some ways more similar to what was once known as Earned Premiums). "Insurance Services Expense" represents the money paid by insurers to settle claims and related expenses. For the first six months of 2023, Canada's P&C insurers collected 9.4% more in revenue than in the same period in 2022. Insurers also paid out 10.4% less in claims and related expenses over this period. This resulted in a improvement in the industry's Insurance Service Result, which rose to $4.37 billion – 4.0% higher than the same period one year ago.

Results varied by line of insurance coverage, and by company. Insurance expenses were highest in Personal Property (PP) insurance. The PP "net insurance service ratio" (This new measure is similar to the old loss ratio, but the new measure will produce higher numbers as it now also includes acquisition expenses, including commissions and reinsurance, as well as the impact of onerous contracts) was 94.1%. The net insurance service ratio for Auto insurance was 92.7%. Insurance results were stronger for Commercial lines insurers. The ratio for Commercial Property was 86.1%, and 82.3% for Commercial Liability coverage.

One year ago, the investment results of Canada's P&C insurers hit an all-time low, as the industry's bond portfolios were negatively impacted by the dramatic and rapid increase in interest rates. As interest rates have steadied, that negative impact has lessened. The industry's investment returns rebounded to a more normal annualized rate of 3.5%.

Improving underwriting and stronger investment results have led to a 144.0% increase in the industry's net income. This translates to an annualized return on equity (ROE) of 11.6%. This result is in line with the industry's pre-IFRS 17 long-run average ROE. Between 1975 and 2022, Canada's P&C insurance industry reported an average ROE of 10.5%. So far, despite the significant changes to financial statements in the industry, 2023 is shaping up to be an "average" year (at best) for Canada's P&C insurers with continued natural catastrophe events likely to negatively impact Q3 as well.

2023 Q2 - Summary of Financial Results

All values are from MSA as of September 12, 2023.
Values exclude mortgage insurers* and are in $millions, except where noted.

	2023 YTD	2022 YTD	Change
Total Insurance Revenue	41,788	38,208	9.4%
Insurance Services Expenses	-34,780	-31,502	10.4%
INSURANCE SERVICES RESULT	4,369	4,201	4.0%
NET INVESTMENT RESULT	1,33	-1,099	-221.3%
General and Operating Expenses	-1,656	-1,314	26.1%
Other Income and Expenses	310	243	27.2%
NET INCOME	3,473	1,423	144.0%
Other Comprehensive Income	14	-1,791	-100.8%
TOTAL COMPREHENSIVE INCOME	3,487	-368	-1048.3%

Emerging Issues

Assuris Boosts Policyholder Protection Levels - by Paul Petrelli

The Importance of Life and Health Insurance

In Canada, life and health insurance products are widely used and they play a significant role in the financial lives of most Canadians. According to the Canadian Life & Health Insurance Association Facts, 2022 Edition:

- 22 million Canadians have life insurance coverage totaling $5.1 trillion, and $14.3 billion of life insurance benefits were paid to Canadians in 2021;
- 26 million Canadians have supplementary health insurance provided by insurers, and $36.6 billion in health insurance benefits were paid to Canadians in 2021; and
- 8 million Canadians have retirement savings managed by insurers, and $46.2 billion in retirement benefits were paid to Canadians in 2021.

Experts in Policyholder Protection

Now more than ever, it is important to ensure that Canadians have access to, and use, financial products and services that are tailored to their needs, vulnerabilities, and resource constraints. Canadian financial services consumers can feel secure in knowing that Canada has a strong well-regulated financial services sector, and that includes knowing that, in the unlikely event that a life and health insurance company fails, Canadian policyholders are protected.

Earlier this year Assuris, in partnership with our member life and health insurance companies, announced higher levels of policyholder protection. The benchmark we set for ourselves in reviewing our policyholder protection was to maintain the goal to fully protect 90% of Canadians, which was set, when Assuris was established in 1990. In addition, we increased our proportional level, from 85% to 90% to simplify the application of our protection.

> **“Assuris’ protection applies to all individual and group insurance products issued by our member companies. This includes, but is not limited to, life insurance policies (whole, universal and term), health insurance (supplementary medical and travel), annuities, retirement income and wealth management products.”**

So, we reached our objectives of 90% - 90%, where 90% of Canadians are fully protected and at minimum 90% of benefits are protected.

This reinforces a clear commitment from the industry to safeguard the financial well-being of all Canadians and provide policyholders with greater financial security and peace of mind.

Assuris' protection applies to all individual and group insurance products issued by our member companies. This includes, but is not limited to, life insurance policies (whole, universal and term), health insurance (supplementary medical and travel), annuities, retirement income and wealth management products. The levels of protection by product benefits are as follows:

Benefits	Assuris Protection	
Death Benefit	$1,000,000	or 90%, whichever is higher
Health Expense	$250,000	
Monthly Income	$5,000/month	
Investments / Savings: • Cash Value • Accumulated Value • Segregated Fund Guarantee	$100,000	

A Mission to Protect Policyholders

In reviewing Assuris' protection, we started out with the principle that any changes did not reduce the level of protection currently provided to policyholders but rather increase the level of protection for policyholders. We also wanted to simplify the administration, application, and communication of Assuris protection, and improve Assuris' ability to effectively resolve a failure. And of course, the protection had to provide more robust protection for policyholders and be acceptable to Assuris' member companies as well as to the federal and provincial regulators.

In 2021, Assuris conducted a broad survey of members to assess protection levels across 21 types of products. The survey findings indicated that Assuris protection for several products did not meet the objective of fully protecting more than 90% of Canadian policyholders.

Based on these findings, Assuris began consulting with the life and health insurance industry and insurance regulators across the country on proposed increases to protection levels for policyholders in 2022. All regulatory and industry approvals for these increases were in place and the new protection levels came into effect on May 25, 2023.

Experts in Policyholder Protection

Founded in 1990, Assuris is the independent not-for-profit organization that protects Canadian policyholders if their life and health insurance company fails. Assuris, with the backing of the life and health insurance industry, safeguards the financial well-being of Canadians. Canadian policyholders can feel secure in knowing that Canada has a strong well-regulated financial services sector, and that in the unlikely event that a Canadian life and health insurance company fails, policyholders are protected by Assuris.

If you have life and health insurance from a member company, you already have Assuris protection! Learn more about Assuris and its protection at assuris.ca. A complete list of member companies can be found on our website.

Paul Petrelli, President and Chief Executive Officer at Assuris

Emerging Issues

Benefits and consequences of reducing the protection gap. Is the safety net safe enough? - by Mary Kelly and Anne Kleffner

In Canada and across the world, exposure to natural disaster losses is growing, and the insurance protection gap continues to increase. Catastrophic losses are increasing due to climate change, economic growth, and accumulation of asset values in exposed areas, and increasing urbanization and population growth, often in exposed areas such as coastal areas and the wildland urban interface (WUI). The Insurance Institute of Canada forecasted that annual insured losses could increase to C$5 billion by 2030. The effect of climate change on the frequency and severity of extreme weather events will become a primary driver of the growth in catastrophic losses in the future.

It is well known that a broad level of insurance protection is necessary for both individual household and community resilience. According to a 2017 report by Munich Re, "*Recent studies show that if you take two countries with identical per-capita income, the country with higher insurance cover will be more resilient to natural disasters.*" Insurance penetration reduces ex post government expenditures: Lloyd's estimated that a 1% increase in insurance penetration reduces post-disaster government expenditure by 22% of the damages incurred.

Why the protection gap exists

Even when insurance coverage is seemingly readily and reasonably available, an insurance protection gap will exist. The reasons for the natural disaster protection gap vary by peril and type of loss. For example, infrastructure, whether public or private, is rarely insured, and many indirect losses may not be covered, or coverage may be insufficient even though insurance is readily available for the direct loss.

> **"Given the potential size of a devastating earthquake in Canada, decreasing the protection gap for earthquake losses without some government assumption of tail risk could significantly impair the functioning of the private insurance market in Canada. A moderate earthquake in a city with significant earthquake insurance penetration could result in significantly large insured losses that could overwhelm the insurance industry."**

Another contributor to the protection gap arises from uninsured secondary perils associated with the underlying primary peril. This is a significant issue with both earthquake coverage and flood insurance in Canada. Insurance policy provisions also contribute to the protection gap. Besides deductibles, which can be as high as 20% for earthquake insurance, the coverage provided for additional living expense coverage might be insufficient after a catastrophe. The same is true for the upper limit on the cost of rebuilding – rebuilding is more expensive after a catastrophic loss.

For residential properties, a primary reason for the protection gap is that even when coverage is offered, it is not purchased. This may be due to the cost or design of the coverage or property owners may be unaware of or underestimate their risk of loss. A good example of the latter is the lack of take-up of earthquake coverage in Quebec.

The last and potentially most important contributor to the protection gap is the lack of availability and /or affordability of insurance for high-risk properties. The new proposed national flood insurance program in Canada is focused on this issue.

Potential solutions to reduce the protection gap

There are a variety of interventions that could reduce the protection gap. Although many require government involvement, industry-led initiatives are also important in reducing the protection gap.

An effective mechanism that addresses under purchasing is a mandatory offer or purchase requirement. However, experience worldwide has shown that once a mandatory offer or purchase requirement is in place, government intervention is typically required to ensure market participation. Specifically, government intervention is essential if subsidized coverage is offered to high-risk insureds. And, as is well known among this readership, until the recent announcement of a new federal flood insurance plan, the Canadian government has not intervened to support the provision of insurance coverage for catastrophic losses.

Further means to reduce the protection gap include changes to policy provisions to cover secondary perils, decreasing deductibles, and raising limits. To enact these changes, sufficient modeling capabilities are needed to price coverage accurately. In the absence of these capabilities, parameter and model uncertainty will lead to affordability concerns. Furthermore, existing affordability issues will also be exacerbated if coverage is expanded to include more high-risk properties.

Increasing coverage options for high-risk insureds is also necessary to reduce the protection gap. An industry-wide pooling model (like Facility Association for auto insurance) has the advantage of reducing adverse selection for insurers; however, in the absence of a subsidy, even if insurers were to offer coverage, it likely would be too expensive. As such, although the creation of such a pool could be undertaken without government involvement, some level of subsidy, geared either to insurers or insureds, would be needed to address affordability concerns. Undoubtedly, this is the rationale for the federal government's intervention into the residential flood insurance market.

Benefits of reducing the protection gap

As noted above, the key benefit of reducing the protection gap is to increase community and economic resiliency in the face of growing natural disasters. A positive consequence of increasing the number of property owners that can readily and reasonably purchase insurance is the reduction in the dependence on Disaster Financing Assistance Arrangements (DFAA). This is important for several reasons. First, because DFAA is "free", it creates moral hazard and does not provide correct and important information about the level of risk faced by property owners. Additionally, DFAA does not provide the same coverage breadth and depth as traditional insurance. Hence, affected property owners bear a greater share of the cost of the loss than if they had insurance. This hampers economic resiliency and slows recovery.

While there is arguably a role for DFAA for losses that cannot be insured by the private insurance market, increasing the proportion of losses that are insured has clear advantages. Specifically, given that insurers are the experts at both pricing risk and settling claims, increasing coverage allows communities and claimants to leverage that expertise. Further, investments in mitigation are incentivized if mitigation activities are priced into insurance premiums.

Consequences of reducing the protection gap

Given the relationship between insurance coverage and economic recovery, reducing the protection gap is an important objective. The strategies discussed above would go a long way in helping Canadians and the economy recover after a catastrophic event. At the same time, unintended consequences arising from increased insurance coverage need to be considered. For example, for the new national flood insurance program, appropriate interventions for high-risk properties are needed that will neither increase moral hazard nor interfere with the efficient functioning of the insurance market by competing directly with private insurers.

The more serious consequence of reducing the protection gap is that tail risk may be increased due to insurers' increased exposure to loss. To date, this is not a significant concern for flood risk. According to a Report by Canada's Task Force on Flood Insurance and Relocation, total residential flood risk in Canada is estimated at C$2.9 billion per year. In 2022, the Canadian private insurance industry had C$241.97 billion in total assets and C$64.9 billion in equity. Given the size of the flood risk compared to the size of the private insurance market, tail risk is not a key concern.

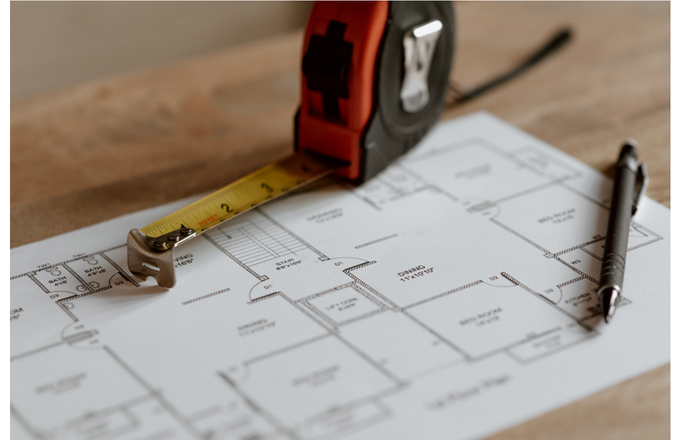
The same cannot be said about decreasing the protection gap for earthquake coverage. Given the potential size of a devastating earthquake in Canada, decreasing the protection gap for earthquake losses without some government assumption of tail risk could significantly impair the functioning of the private insurance market in Canada. A moderate earthquake in a city with significant earthquake insurance penetration could result in significantly large insured losses that could overwhelm the insurance industry. This was clearly demonstrated by the Canterbury sequence of earthquakes (CES) in 2010 and 2011 (see Solvency Matters June). Although the 2011 earthquake in Christchurch was not excessively strong, it occurred in a city where over 75 percent of households had residential earthquake insurance, and government intervention was necessary to ensure the solvency of the public insurer and stabilize the private insurance market.

Government intervention will be necessary to support the resiliency of the Canadian P&C insurance market in the face of a large catastrophic event – the threshold, according to PACICC modeling, is an earthquake generating C$35 billion in insured losses. As such, actions that reduce the protection gap need to be matched with actions to support the resiliency of the private insurance market. The CES experience and the impact on insurers in New Zealand highlight a key point: if the government chooses to take steps to reduce the protection gap, it must also commit to supporting the insurance industry by assuming tail risk.

Mary Kelly, Professor, Finance and Chair in Insurance
Lazaridis School of Business & Economics, Wilfrid Laurier University
Anne Kleffner, Professor and Chairholder, Insurance and Risk Management
Haskayne School of Business, University of Calgary

PACICC Priority Issues: Updates

Managing Systemic Risk



In its 2013 "Why Insurers Fail" research paper, PACICC estimated the threshold beyond which a major catastrophic event would overwhelm Canada's property and casualty (P&C) insurance industry. A catastrophic event with an insured loss above this level would cause PACICC to fail in its mission to protect Canadian policyholders. The paper was subsequently updated in 2016 and again in 2021. PACICC's most recent estimate is that a catastrophic event resulting in insured losses greater than $35 billion would be "the tipping point" for systemic failure of the industry. While this was a controversial proposition just 10 years ago, further research on serial contagion over the intervening years has resulted in enhanced understanding and widespread acceptance of our findings within Canada's P&C insurance industry.

Since 2015, PACICC has partnered with Insurance Bureau of Canada (IBC) in the development of proposals and submissions to federal and provincial governments, requesting an industry backstop mechanism to ensure that policyholders – and the P&C insurance system itself – are better protected. PACICC has maintained a consistent position in these discussions. It was not designed to serve as the "insurer of last resort" to address serial Member insurer failure following a catastrophic earthquake in Canada. We have also consistently highlighted that most (if not yet all) other developed nations facing significant earthquake risk have some form of government-led backstop mechanism in place. The absence of such protection is a major shortcoming in Canada's public policy framework.

PACICC was buoyed by news in the 2023 Federal Budget on 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 was welcomed, the Budget did not provide a specific timeline for an earthquake solution. And given the clear "parallel" priority assigned to the more politically urgent flood file, it is hard not to conclude that – despite 10 long years of advocacy on this file – it is now unlikely that a government earthquake solution (backstop/mechanism) will materialize over the short- and even medium-term. In April 2023, the PACICC Board instructed staff to seek to develop "Plan B" options that include incremental changes to PACICC's contingency measures to better mitigate systemic risk. The PACICC Board is compelled to plan for such scenarios, under circumstances where no measurable progress has been made in our protracted discussions with government.

Strengthening Canada's Resolution Infrastructure

It has become increasingly clear to PACICC that the type of insurer default most likely to require the Corporation's engagement is changing. Historically, PACICC has primarily been faced with the failure of smaller, regional insurers. While PACICC remains exposed to the failure of a single, smaller domestic Member Insurer, fewer and fewer of these remain. PACICC is also exposed to the failure of a local Branch of a larger global insurer that defaults outside of Canada (as happened in 2004). However, the increased pace of industry consolidation means that the next failure is more likely to be that of a medium-sized (or larger) insurer, perhaps triggered by ever-increasing natural catastrophes fueled by climate change. This new reality is exerting different pressures on our current operating model.

International best practice shows that emergency liquidation of a large insurer is likely to result in negative outcomes for policyholders, Member Insurers and regulators. As noted in PACICC's 2020 and 2021 Consultations with its Member Insurers, some form of managed "resolution" in such cases can lead to better outcomes for policyholders and lower "clean-up" costs for Member Insurers, compared to liquidation.

PACICC was invested with significant resolution powers when it was founded in 1989. On this point, PACICC examined best practice regarding "resolution infrastructure," as defined by the Financial Stability Board (FSB) and the International Association of Insurance Supervisors (IAIS). PACICC confirmed that there was, in fact, a significant gap in the current resolution toolkit for the Canadian P&C insurance sector – the absence of a "bridge insurer" mechanism. This gap appeared more significant when PACICC compared itself to sister organizations in Canada's financial services sector, including: Canada Deposit Insurance Corporation (CDIC) in the banking sector (with full "bridge bank" powers), and 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 the Board, PACICC staff approached OSFI to discuss its willingness to consider an application for the establishment of an OSFI-chartered and supervised "bridge insurer" for PACICC. OSFI was receptive to the idea and provided PACICC with the outline for a streamlined application process. The application process is now fully underway and includes a series of "use cases" already discussed with the Board. The OSFI application will be a major work initiative for PACICC staff in the months ahead. PACICC met recently with OSFI staff to discuss industry issues, including the first draft of the application submitted in June. Monthly checkpoint meetings are now being scheduled beginning this Fall. There will be continued discussions with government decision-makers and with the industry regarding key policy choices involved in establishing this important resolution capability.

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, but with the next review commencing within three years (i.e. in 2023). CCIR specifically requested that PACICC incorporate a province-by-province analysis of the adequacy of its benefit limits in this next review.

The 2023 Coverage and Benefits review was launched on schedule last fall, with an industry-wide call that secured key, anonymized data from more than 750,000 individual claims files. Eckler Ltd. was contracted to collect and safeguard the confidentiality of this information and conduct a detailed analysis. This massive sample enabled PACICC to properly evaluate the adequacy of current limits – with statistically significant results – nationally and at the provincial level. At the PACICC Board's April 2023 meeting, Directors noted that the initial Eckler analysis indicated that, while the level of consumer protection remains high, inflation has caused some erosion of benefits even in the brief three years since the last review. This has prompted some questions…

including whether or not PACICC should consider introducing annual inflationary adjustments to benefit levels…at least for personal lines? And, if yes, how should the annual adjustment be determined?

The 2023 review is again relying on three guiding principles – Fairness, Transparency/Clarity, and Modernization and examines: extent of coverage, benefit limits by province and the hardship claims appeal process. PACICC released an Industry Consultation Paper over the Summer, seeking feedback from Member Insurers on a series of key questions regarding our Review. PACICC staff is in the process of reviewing comprehensive industry feedback to the questions posed in the Consultation exercise. This input will inform options that will be developed by staff, for consideration by the PACICC Board at its November 16 meeting. Any approved changes would then require regulator approval (90-day review period, December 2023-February 2024) and subsequent Member support (at the April 2024 AGM), before coming into effect after the AGM.

PACICC Risk Officer's Forum

Upcoming Risk Officer's meetings and webinars - by Ian Campbell

The Risk Officer's Forum seeks to enhance risk management within the P&C insurance industry by:

- Discussing and sharing risk management best practices within the industry
- Reviewing and communicating topical risk management information
- Serving as a risk management resource for PACICC and for insurance regulators
- Discussing major existing risks and significant emerging risks within the industry
- Providing resources and information to facilitate research of risk management and related governance topics.

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)

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, November 30

Topic: Global/Multinational Supply Chain Issues
Speaker: **Saad Mered** – (CEO and Chief Agent - Canada, Zurich Canada)

Topic: Board Governance and ERM
Speaker: **Steve Mallory** – (President & CEO, Directors Global Risk Consulting Inc.)

Topic: Global Failed Insurer Catalogue (*When, Where and How Often Insurers Fail*)
Speakers: **Grant Kelly** – (Chief Economist and Vice President, Financial Analysis and Regulatory Affairs, PACICC)
Zhe (Judy) Peng – (Research Associate, PACICC)

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.

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