Solvency Matters

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

PACICC

Insolvency protection for home, automobile and business insurance customers

Issue 27 - October 2024

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From the Desk of the President

Maybe Guessing Just Isn't Good Enough? - by Alister Campbell



In a previous corporate life, I vividly remember the uncomfortable waiting time before we could accurately ascertain the scope and scale of potential underwriting losses from the Fort McMurray wildfire. For obvious reasons of public safety, there were strict limits on access to the city for some days after the devastating blaze. So, the whole industry was on tenterhooks waiting for satellite imagery to give us a clear view of how bad things actually were. And for that, we needed to wait until the smoke cleared. Only then could we determine what the financial consequences of the largest natural catastrophe loss in Canada's history would be for our own corporate balance sheet.

For my firm at the time, and for many other Canadian insurers with exposure to the region, the loss was substantial. But it was only an "earnings event" and not a "capital event" – meaning that the losses were significant enough to adversely impact a quarter's results or even a full year's, but not so great as to fundamentally impair capital. The simple explanation for this relatively benign outcome was that a substantial share of the insured losses was absorbed by the reinsurance industry, which provides a huge contingent capital buffer to protect the "primary" insurance sector from exactly these types of events. There were a handful of firms that exhausted their reinsurance coverage and had to draw down on capital. Happily for them, for their policyholders, for the industry…and for PACICC, no firm was fatally impacted by the Fort Mac fire. But the event provided a potent reminder of the need to ensure comprehensive stress testing of insurer balance sheets – including their available reinsurance.

"The simple explanation for this relatively benign outcome was that a substantial share of the insured losses was absorbed by the reinsurance industry, which provides a huge contingent capital buffer to protect the "primary" insurance sector from exactly these types of events."

This summer, PACICC partnered with the British Columbia Financial Services Authority (BCFSA) to conduct a desktop insolvency simulation exercise. Our objective was to better understand how the system would respond (or fail to respond) to a major earthquake followed some months later by a severe aftershock, both of which caused significant insured losses (far greater than Fort McMurray). In the simulation exercise, a handful of regional insurers failed in the wake of the first event. And more insurers failed as a result of the second. While the event itself was fictitious and the specific failed insurers were entirely fictional, we used a quake event series produced for us by the seismologists at Natural Resources Canada (NRCAN), which they had assured us was entirely scientifically credible. To simulate the adverse impacts on the 90+ insurers writing property insurance in British Columbia, we used PACICC's Systemic Risk model, which has been built to help us to identify the "tipping point" – the point beyond which the scale of insured losses is so great that PACICC would be called upon to manage the serial failure of Members, and the resulting required Assessment on the industry would trigger systemic contagion (to read more on this click here). This is the point at which the PACICC Board would be forced to "pull the circuit breaker" and a government liquidity mechanism/backstop would be required.

We will be publishing more on the “lessons learned” from this exercise later, after all participants (including OSFI, the AMF, CCIR and Finance Canada) have had an opportunity to fully digest the impactful results of a very successful simulation exercise. But I do want to flag for our Members one key learning from the PACICC perspective, which we propose to act upon in the near term. In order to run the simulation exercise, we needed to analyze the impact of severe insured losses on the balance sheets of our Insurer Members. We also needed to make general assumptions regarding the reinsurance protection purchased by each of our Members to supplement their capital in worst-case scenarios. We consulted major reinsurance brokers and OSFI to determine the likely overall natural catastrophe reinsurance purchase made by Canadian insurers (more than $36B, and roughly double that purchased when we first constructed the model 10 years ago). But then, we simply spread the estimated purchase across all Members based on their property insurance market share. Essentially, we had to guess how much was purchased by each individual Member. The first lesson learned in our desktop exercise? Guessing isn’t good enough!

“The first lesson learned in our desktop exercise? Guessing isn’t good enough!”

This Fall, we are publishing our first update to our Global Failed Insurers Catalogue – a groundbreaking research program which is now producing the most comprehensive listing of insurer failures (since 2000) in the world. Historically, property & casualty insurers have failed for largely consistent reasons having to do with poor risk selection, pricing and reserving. One of the insights that we have gleaned from work on this Catalogue is that a changing climate is now yielding a whole new category of failed insurers, who are simply overwhelmed by natural catastrophe losses, beyond those they had modelled in their stress tests and beyond the limits of their combined capital and reinsurance coverage.

The need to better understand our industry’s potential resilience in the face of accelerating natural catastrophe losses is already a pretty compelling reason for ensuring that PACICC has access to the data required, so that we can use something better than guesswork in our modelling. But Canada is a quake-exposed nation, and despite a decade of asking, we still have no government backstop mechanism in place for a worst-case scenario that we all know will happen someday. So, it becomes simply imperative that PACICC puts itself in a position to model its “tipping point” exposure more accurately. We are already legally authorized to secure all of the financial information that we need to do this work from each of our Members. But to strip out the guesswork, we will clearly also need access to Member-specific reinsurance information. Over the next few weeks, we will be discussing this with our Board and our Members, and then, subject to their approval, will be seeking regulator blessing for a proposal to ensure that PACICC has access to the information which is increasingly evident as being essential for us to do our job responsibly.

It will be a busy Fall to finish off another challenging year. Looking forward to seeing you on the circuit!

Alister Campbell, President and Chief Executive Officer at PACICC

Another steady season for most P&C insurers

by Grant Kelly and Zhe (Judy) Peng

The results for the first six months of 2024 are in and the news is generally positive for Canada's P&C insurers. However, it must be noted that these results do not include the four catastrophic losses that occurred in the third quarter of 2024 – the Jasper wildfire, huge Calgary hailstorm, flooding in Toronto and the very expensive flooding in Quebec. The half-year results are good and indicate that Canada's P&C insurers were financially prepared for the losses in the third quarter.

"Total Insurance Revenue" is defined as the amount earned for providing insurance coverage under IFRS 17 and has replaced "Gross Premiums Earned." In the first two quarters of 2024, the Total Insurance Revenue of the P&C sector reached $50.0 billion, a 9.4% increase over the previous year's $45.8 billion. Among the 167 insurers that reported 2024 Q2 Total Insurance Revenue, only 28 insurers (17 percent) – all of which are small- or medium-sized – reported negative year-over-year growth.

For the first six months of 2024, the Insurance Services Result reached $7.4 billion, an increase of more than 50 percent compared to the same period in 2023. "Net Expenses from Reinsurance Contracts Held" increased from $2.8 billion in the first half of last year to $3.5 billion in 2024, an increase of 24.7% increase. This growth is likely driven by the need of primary insurers to procure more protection against weather-related catastrophic losses and the rising cost of that protection.

"Net Investment Result" also improved, rising from $1.3 billion in the first half of 2023 to $1.7 billion this year, a 32.9% increase. This is likely driven by improved mark-to-market valuations of invested assets following interest rate cuts and/or the expectation of lower interest rates. The change in market environment and asset pricing is reflected in Realized Gains, which are $123 million for the first two quarters this year, compared to –$301 million in 2023.

The improvements in both Insurance Services Result and Net Investment Result led to an increase in overall Net Income of $6.0 billion for the first two quarters in 2024. This represents a 65.5% increase from 2023.

Given this continued good news, the annualized Return on Investment (ROI) increased from 3.6% over the first two quarters of 2023 to 4.0% over the same period this year, and the Return on Equity (ROE) increased from 11.8% in 2023 to 17.2% this year. The two solvency measures – the MCT Ratio and the BAAT Ratio – slightly increased over last year's numbers, suggesting that most P&C insurers are in good health.

All in all, the second quarter of 2024 shows continued positive results for Canada's P&C insurers. The second quarter results should enable the industry to weather the impact of the expected $7 billion-plus in catastrophic loss claims that will significantly weaken the third quarter results.



2024 Q2 – Summary of Financial Results

All values are from MSA as of September 5, 2024
Values exclude mortgage insurers* and are in $millions, except where noted.

	2024 YTD	2023 YTD	Percentage Change
Total Insurance Revenue	50,097	45,814	9.4%
Insurance Services Expenses	-39,243	-38,294	2.5%
Net Expenses from Reinsurance Contracts Held	-3,476	-2,788	24.7%
INSURANCE SERVICES RESULT	7,379	4,733	55.9%
Investment Return	3,137	2,488	26.1%
Net Finance Income/Expenses from Insurance Contracts Issued and Reinsurance Contracts Held	-1,470	-1,234	19.1%
NET INVESTMENT RESULT	1,667	1,254	32.9%
General and Operating Expenses	-2,441	-1,863	31.1%
Other Income and Expenses	830	472	75.7%
Income Taxes	-1,384	-941	47.0%
NET INCOME	6,050	3,655	65.5%
TOTAL COMPREHENSIVE INCOME	6,305	3,723	69.4%

Select Solvency Indicator Ratios

	2024 YTD	2023 YTD
Return on Investment (ROI)*	4.0%	3.6%
Return on Equity (ROE)*	17.2%	11.8%
MCT Ratio (Capital Available / Capital Required)	263.6%	263.2%
BAAT Ratio *(Applicable to Branches)* (Net Assets Available / Capital Required)	339.8%	322.8%

* Values exclude two mortgage insurers, i.e., Canada Guaranty Mortgage Insurance Company and Sagen Mortgage Insurance Company Canada, and are in millions of CAD, except where noted.

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

Zhe (Judy) Peng, Research Associate, PACICC

Emerging Issues

CCIR Assuris-PACICC Committee

by Steve Leung and Margaret Orlander



The Canadian Council of Insurance Regulators (CCIR) is an association of insurance regulators and a forum for those regulators to come together to discuss issues pertaining to regulatory oversight of the Canadian insurance industry.

The CCIR traces its history back to 1914 when the Superintendents of Insurance from several provinces first met "to discuss ways and means to secure uniformity in the laws relating to contracts of insurance." Since then, the membership of CCIR has expanded to include all provinces, territories and the federal Office of the Superintendent of Financial Institutions. To adapt to changes in the regulatory landscape, the issues discussed at the forum have also expanded to include topics such as climate change, fair treatment of customers and segregated funds. Working groups and standing committees, including the Assuris-PACICC Committee ("A-P Committee"), have been established to explore different topics.

Assuris-PACICC Committee

Compensation corporations like PACICC and Assuris, may need to update their bylaws or Memorandum of Operation ("MoO") in furtherance of their business needs (e.g. streamline aspects of its operation) and/or to address changes in the insurance marketplace (e.g. to increase protection limits). According to the governance bylaws of these compensation corporations, for these amendments to be made, insurance regulators must be consulted and thereafter can only become effective when there are no objections from the regulators.

In line with CCIR's mission to work collaboratively and its vision for an insurance marketplace where consumers are treated fairly, the A-P Committee plays an important role in reviewing these amendments, facilitating discussions between regulators and PACICC, and evaluating potential impacts to policyholders.

In the past several years, the A-P committee has worked closely with PACICC and CCIR members on numerous amendments related to PACICC's bylaws and MoO. Some examples include:

- Updating auto and personal property claims limits to protect against inflation;
- Increasing personal property, auto and commercial limits for policyholders;
- Changing the Total Assessment formula to be based on "Best Estimate" instead of "Maximum Exposure" regarding the exposure of an insolvent member to support a more timely decision-making process;
- Permitting PACICC to create a bridge insurer to enhance its resolution capabilities;
- Updating access to Members' regulatory information for timely analysis; and
- Enhancing its governance structure to include additional independent board members.

Both insurance regulators and PACICC play key roles in protecting policyholders in the event that a P&C insurer becomes insolvent. The A/P Committee engages regularly with PACICC to support dialogue and collaboration pertaining to proposed by-law or MoO changes and potential impacts to policyholders.

Recommendations for regulators

Another objective of the A-P Committee is to advise and provide recommendations to CCIR members with respect to proposed amendments. While the A-P Committee may make recommendations, each regulator may provide its own objections or comments to PACICC regarding the proposed changes. This mechanism is deliberate in order to respect that each jurisdiction in Canada has its own regulatory approach based on its unique culture, traditions and legal regime. As such, the A-P Committee also serves as an important venue to facilitate discussions and regulatory collaboration between regulators and to work towards consensus when applicable.

Coordinate with regulators' intervention guides

Over the years, many insurance regulators have developed intervention guides that set out the supervisory actions that the regulators may take to address concerns identified with a regulated insurer, helping to determine supervisory actions, outlining clear timetables and identifying issues which may pose a risk to policyholders. These guides also set out the roles and responsibilities of the regulators and PACICC at different intervention stages. As such, for effective intervention, it is crucial that the regulators and PACICC have close co-ordination, and that any by-laws or MoO changes also align and support this co-ordination.

Conclusion

Looking forward, the A-P committee will continue to collaborate closely with PACICC and remains committed to working together to meet the challenges presented by a rapidly changing insurance industry.

Steve Leung, Chair, CCIR Assuris-PACICC Committee
Margaret Orlander, Secretariat, CCIR Assuris-PACICC Committee

Emerging Issues

After-shocked: A Seismologist's Perspective on Insuring Multiple Earthquake Events - by T.E. Hobbs, PhD, MSCE



Summary:

Aftershock sequences can go on for a long time (years), whereas the insurance definition usually only extends to one week. This leaves the possibility of policyholders paying their deductible multiple times following a large event, insurers needing to repair structures multiple times, or reinsurers facing larger payouts than expected. This issue deserves thoughtful consideration in terms of minimizing shock and costs to all parties.

Main Text:

Earthquakes occur when pieces of the earth's crust move, suddenly, relative to one another. They are the result of large stresses in the crust, built up over months, years, decades, or even millennia. Large earthquakes are often followed by smaller earthquakes – in this case the largest earthquake is termed a 'mainshock', while the subsequent events are termed 'aftershocks'. On some occasions, small events preceding the mainshock may occur, which are then considered 'foreshocks'. The definitions of these terms are contextual. A magnitude 5 earthquake could be a mainshock if it is the largest event in the sequence, or it might be either a fore- or aftershock if it occurs before or after a larger event, respectively. When and where do earthquakes stop being aftershocks and go back to being regular ('background') earthquakes?

> **"When and where do earthquakes stop being aftershocks and go back to being regular ('background') earthquakes?"**

To answer this, we can turn to years of seismological research going back to the late nineteenth century. According to something called 'Båth's Law', the largest aftershock is typically no larger than about one magnitude unit smaller than the mainshock. Following the Omori-Utsu Law for aftershock decay, we know that the number of aftershocks typically drops off exponentially after the mainshock. This means that aftershocks are most likely to happen right after the mainshock, but can extend for a long time before returning to the background (pre-mainshock) level of seismicity.

For very large earthquakes and those far away from plate boundaries, aftershock sequences can go on for hundreds of years. An example is the 1811-1812 New Madrid earthquakes, for which aftershocks are believed to be ongoing. Though contested, some scientists consider that all seismicity in the Charlevoix seismic zone in Quebec are aftershocks from the magnitude 7.5 earthquake that occurred there in 1663. Spatially, we consider aftershocks as those events which are close enough to have been triggered by the nearby rupture of the mainshock. They typically cluster near the edge of the mainshock, but are known to also occur on nearby faults. However, some earthquakes can be considered as 'triggered' by a mainshock hundreds of kilometers away. These examples highlight the difficulty in precisely defining what should be considered an 'aftershock' in every situation and for every application.

This seismological perspective on aftershocks is important because it is substantially different than the insurance perspective on what constitutes an aftershock. Depending on the policy, aftershocks are only considered as part of the same sequence when they occur within the first 48 to 72 hours or one week of the mainshock. This has already led to situations in the US in which policy holders were confused when asked to pay their deductible twice for a single earthquake sequence, particularly in instances where a damaging aftershock occurs months after the mainshock, allowing for repair of the mainshock damage in the interim. This, despite the fact that primary insurers frequently instate moratoriums on earthquake policy sales for several weeks following a major earthquake due to the looming threat of aftershocks.

This may seem like a niche problem, which has historically not been a major issue for insurers, policyholders, or reinsurers, but it bears considering. The United States Geological Survey now routinely issues aftershock forecasts following major earthquakes in the United States, among other nations following a similar trend. Although they clearly state that the probability of large, damaging aftershocks is usually low, it is higher than during a non-aftershock period.

A notable example is the 2011 magnitude 6.3 Christchurch, New Zealand (NZ) earthquake, which killed 185 people and caused roughly $35 billion in losses (equivalent to 18% GDP of NZ), despite being an aftershock of the non-fatal, $5 billion 2010 Darfield earthquake. Damage from these two large events, as well as 13 other aftershocks, resulted in difficulties apportioning damage between the events. In NZ, earthquake insurance is managed by the Earthquake Commission (EQC). The first $100,000 in residential damage was typically paid for by the EQC, with the remainder being covered by private insurance. Given that many buildings were damaged by multiple earthquakes in this sequence, the High Court of NZ ruled that each aftershock would be treated as a separate earthquake. This didn't become a big issue for homeowners as the deductible (termed an 'excess' in NZ) is usually 1% of the settlement cost, or up to $3450 for residential building damage. This means that whether the cost of repair is split between multiple events or not is irrelevant, and overall deductibles are much lower than those found in Canada. It did, however, cause major slowdowns for insurers and reinsurers in trying to determine who held what liability for each property and each quake.

"In other words: an unfortunately-placed aftershock could do more damage than the 'Big One'."

Recently, the Geological Survey of Canada has done modelling to consider the impact of aftershocks on homeowners. For an earthquake sequence with a magnitude 9.0 Cascadia Subduction Zone mainshock and a shallow magnitude 7.0 Georgia Strait aftershock on the west coast of British Columbia, the insured losses from aftershock could exceed both the insured loss from the mainshock and potentially the threshold for solvency of the property and casualty insurance sector in Canada. In other words: an unfortunately-placed aftershock could do more damage than the 'Big One'. This work is part of the National Seismic Risk Model, an assessment of seismic risk at the neighbourhood level across Canada now available through the RiskProfiler web application.

What is to be done about catastrophic aftershocks? The question deserves thoughtful consideration in terms of minimizing shock and costs to all parties. Immediately, it seems clear that policyholders are unlikely to be aware of their potential to need to pay their often-steep deductibles more than once. In researching for this article, I found almost no references to the timeline used by insurance companies to determine whether an event is an 'aftershock' or separate earthquake. Of course, the specifics are

always contained in an individual's policy, but it is well-known that consumers infrequently read and have difficulty comprehending business-to-consumer contracts. They therefore rely on statements made by salespersons such as insurance brokers. Educating brokers to fully understand earthquake endorsements and communicate those clearly and fully to purchasers appears important to avoiding consumer shock.

Another potential option could be to offer the option to delay adjustment or repair on non-critically-damaged structures after major events, potentially in consultation with aftershock forecasts, and to ensure rebuilt structures are brought to modern building codes. The latter would be a requirement in Canada, anyways, but helps to protect against damage from subsequent events. Delays, while requiring additional alternate living costs, could ultimately deliver a cost-savings if there ended up being a damaging aftershock during or after repairs that required additional funds from insurers. Significant research would be required to analyse the likelihood of such situations, operational parameters that would dictate when and how to successfully implement such a plan, and likelihood for social disruption.

Finally, it seems that this issue must be carefully considered in terms of unmodelled risk to insurers and reinsurers. The Canadian Office of the Superintendent of Financial Institutions (OSFI) provides regulatory guidance for the property and casualty insurance sector. In its guideline on 'Earthquake Exposure Sound Practices', it encourages consideration by insurers of non-modelled exposures and risk factors, such as "increased seismicity after a large event". While OSFI requires insurers to provide proof of sufficient capital for a 1-in-500-year earthquake loss, this does not take into account any aftershocks from such an event. This, then, could leave a solvency gap in the event of such an earthquake, despite regulatory provisions.

In terms of reinsurance, multiple large earthquakes in the same contract year could significantly affect stop-loss and second event covers, where payments by reinsurance are affected by the occurrence of more than one catastrophic event or by aggregate losses above a set threshold. All of these factors suggest that additional modelling or risk assessment should be conducted to quantify the likelihood and extent of aftershock losses. Preliminary work on this topic is already being undertaken, using Operational Earthquake Forecasting. While this is currently a challenge for modellers, future engineering and seismological studies could involve statistical analysis of past earthquake sequences or hypothetical future events.

While Canada has yet to suffer a major, modern earthquake with substantial insurance claims, we know that it will happen sooner or later. Aftershocks are a reality of large earthquakes, and will almost certainly extend beyond a 72-hour or one week timeline. Canada has the chance now to prepare for and clarify how this will be handled within the insurance sector, to avoid costly and upsetting delays in the future.

T.E. Hobbs, PhD, MSCE
Research Scientist, Geological Survey of Canada
Adjunct Professor, University of British Columbia
Adjunct Professor, University of Victoria

PACICC Priority Issues: Updates

Managing Systemic Risk



In the last issue, we noted that PACICC has published a series of Systemic Risk studies to identify the potential threshold in total insured losses ("Tipping Point") above which the entire Canadian P&C system would fail in its mission to protect Canadian policyholders. The first study was published in 2013. Updated versions of the Systemic Risk Model were published in 2016 and again in 2021. The latter study pegged the "Tipping Point" at approximately $35B in insured losses. The threshold is very high, reflecting the fact that the industry is highly capitalized and well reinsured. The study also noted that there were few perils which could cause such extensive insured losses, such as an asteroid strike, space weather, or a mega-earthquake in BC or the Quebec City/Montreal/Ottawa corridor.

Back in 2017, the Federal Government made an explicit Budget commitment to address systemic risks associated with a major quake. Despite substantial dialogue with key stakeholders (e.g. Finance Canada, IBC, ICLR and Public Safety Canada) in the interim, measurable progress has been limited. As a result, our Board established "Mitigating Systemic Risk" as a Permanent Priority Issue, until such time as a backstop mechanism has been actioned.

The Federal Government is engaged in discussions with stakeholders around how to implement public-private partnerships to address multiple perils, including quake. Recognizing that additional time is needed for this dialogue to produce results, we continue to liaise with Finance Canada, OSFI, Bank of Canada, CMHC, FCAC and CDIC, as appropriate, and are conferring with IBC and ICLR to ensure aligned approaches.

We are also using this consultation period to advance a series of incremental measures to mitigate systemic risk. Our Memorandum of Operation has been amended to remove PACICC's obligation to establish a "maximum exposure" when calculating any Special Assessment. A new requirement for a modernized, actuary-established "best estimate" will help to mitigate systemic risk in the case of serial Member Insurer failure. At the direction of our Board, we are also pursuing other incremental options to address industry risk, including:

- **Differential Treatment of PACICC Special Assessments –** PACICC sees great Member benefit in having OSFI agree to adjust the capital treatment of multi-year PACICC obligations in its Minimum Capital Test formula. This recognizes the systemic risks of forcing Member Insurers to reflect 100 percent of their total anticipated Assessments in their accounting liabilities. We are engaging directly with OSFI on this matter. This initiative is well timed, as OSFI will be undertaking a review of the P&C sector's capital requirement formula in 2025.

- **Designation of PACICC as a "Compensation Association" under the *Federal Insurance Companies Act* –** PACICC is following up on a formal request to Finance Canada for this designation, which will make it easier for PACICC to share information and engage as a trusted counterparty, if we are formally recognized in the Act.
- **Desktop Insolvency Simulation Exercise –** In early July, PACICC partnered with BCFSA and other stakeholders (including OSFI, CCIR, Finance Canada, IBC and the PACICC Board) to conduct a desktop insolvency simulation exercise, examining the impact of a major earthquake and subsequent aftershock on the financial services sector in B.C., and the efficiency and effectiveness of response protocols.

Coverage and Benefits Action Plan

Earlier this year, we completed work on our Coverage and Benefits Review. Back in 2020, we committed to the Canadian Council of Insurance Regulators (CCIR) that we would undertake a review of our coverage and benefits at least once every five years, with the next review occurring in 2023 (and every five years thereafter). We reviewed: extent of coverage, claim limits, return of unearned premiums, hardship claims, threshold for commercial coverage eligibility and benefit limits at the provincial level (i.e. the appropriateness of possibly having higher limits in certain provinces to reflect higher average claim costs).

The review confirmed that PACICC currently offers a very high level of protection to Canadian policyholders. In the event of a PACICC Member failure, roughly 98 percent of all Personal lines policyholders are protected (on average) to the full value of their claim (with the remaining two percent partially protected). The review also found that while PACICC limits were equally robust across all provinces, they have been subject to the conseqenses of inflation.

PACICC committed to an annual inflation adjustment in benefit limits for Automobile and Personal Property coverages. On July 1, claims limits for Personal Property policies increased from $500,000 to $520,000, and claims limits for Auto policies increased from $400,000 to $415,000. Claims limits for Commercial policies will continue to be reviewed every five years.

Expanding Resolution Capabilities – PACICC-SIMA General Insurance

Comprehensive industry consultations in 2020 regarding an expanded "Resolution Toolkit" for PACICC led to a proposal that PACICC incorporate an OSFI-chartered "Bridge Insurer." This new tool would enhance PACICC's ability to respond to a range of distress/crisis scenarios. Our peer organization in the Canadian life insurance sector (Assuris) already has a similarly incorporated entity in place *(CompCorp Life)* under OSFI supervision.

A Bridge Insurer that is specifically designed for the needs of the P&C sector can meaningfully enhance our response capabilities. PACICC would be better positioned as a resolution partner to assist regulators in dealing with insurer distress, in specific but credible scenarios. This includes an insurer incurring "toxic liabilities," or situations involving any of our industry's 17-largest insurers in financial distress, where immediate liquidation would otherwise be very costly for all stakeholders.

With the assistance of OSFI, PACICC has been working through an exhaustive list of questions (regarding governance, capitalization, legal process, information flow and operationalization) in a streamlined application review process. Work on the application is nearing completion. Our monthly "checkpoint" meetings with key OSFI staff are helping to ensure timely and effective management of this comprehensive application.

If approved, the Bridge Insurer initiative will enhance PACICC resolution capabilities significantly. Our industry structure continues to change, with a significant trend toward consolidation. This has led to an increase in the number of Member Insurers whose financial distress could trigger a PACICC General Assessment which, of and by itself, would cause financial distress for other Member Insurers. Rather than simple liquidation, there are scenarios now where resolution alternatives have become imperative.

We have made great strides to enhance our financial capacity, to flesh out and make best use of the broad resolution powers granted to the Corporation upon its founding in 1989, and to tackle systemic risk to the industry. Looking back, these initiatives have included: adoption of a *Resolution Protocol* in 2021; securing approval for use of our Compensation Fund to fund resolution alternatives; and the establishment of a Standby Line of Credit facility. The addition of a Bridge Insurer mechanism is the next logical step in this effort.

Anticipating successful completion of the OSFI approval process by the end of the year, we will seek to establish this Bridge Insurer entity (PACICC-SIMA General Insurance) – subject to all other regulator and Member approvals – over the course of 2025.

Enhancing our Financial Capacity – Exploring Medium-Term Capacity Options

Another Key Priority Issue for PACICC this year concerns expanded financial capacity. We are exploring the potential for PACICC to access capital markets, for debt financing in circumstances where additional liquidity may be required beyond what is available via our General Assessment mechanism. Two US guarantee funds (Louisiana Insurance Guaranty Association and Florida Insurance Guaranty Association) used this approach to secure immediate funding to address a large number of pressing claims caused by a cluster of devastating hurricanes.

We are liaising with major rating agencies on securing and maintaining a favourable credit rating for the Corporation. This represents another low-cost option to assist PACICC in responding to a larger number of crisis scenarios.

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.

Upcoming Emerging Risks Webinar:

Thursday, October 31*

Speakers: **Gregory Gaines**
Technical Director, Economic & Complex Analytics Practice, Roux Inc.
Dr. Chase Gerbig
Principal Engineer, Roux Inc.

Topic: Per-and Polyfluoroalkyl Substances (PFAS)

*Please note the new date here.



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.

Upcoming Forum Meeting:

Thursday, November 28

Keynote:	**Fabian Richenberger** Executive Vice-President, Commercial Insurance & Insurance Operations Definity Financial Corporation
Discussion 1	
Speakers:	**Peter Askew** President and Chief Executive Officer, Guy Carpenter Canada **Matt Wolfe** President and Chief Executive Officer, Aon Reinsurance Solutions Canada
Topic:	The 2024 Reinsurance Environment
Discussion 2	
Speakers:	**Grant Kelly** Vice President, Financial Analysis & Regulatory Affairs and Chief Economist, PACICC **Zhe (Judy) Peng** Research Associate, PACICC **Ian Campbell** Vice President, Operations, PACICC
Topic:	Analyzing Failure Clusters and Canada's Capacity to Respond



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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