# 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 30 - June 2025




NEXT

# From the Desk of the President

## So…What Can We Do for Our Country? - by Alister Campbell

In the famous formulation first used in 1960 in his Inaugural Address, newly elected U.S. President John F. Kennedy challenged his fellow citizens by saying, “Ask not what your country can do for you…ask what you can do for your country.” I have been reflecting on this challenge for several reasons over the last few weeks. First, because a member of our PACICC Board – former Goldman Sachs Canada President Tim Hodgson – bravely offered up his name as a candidate in the recent federal election, and is now a member of Prime Minister Carney’s Cabinet. But also, because I suspect that many of us have been asking that same question ourselves, as our country is being challenged to fundamentally re-think the strategic situation – as a “G7” player with a woefully underperforming economy, low productivity growth, and a suddenly unpredictable neighbour and key trading partner across our undefended southern border. One would think that, if there was ever a time for “all-hands-on-deck,” it is now.

As I have been personally ruminating on this broad topic, I have also been thinking about narrower, industry-specific questions. How will our Canadian property and casualty industry respond? What more can we do for our country? How will we help? Of course, we help a lot already. The economy that we have today flows smoothly, precisely because our industries’ products enable that flow. PACICC Members insure the factories, the warehouses and offices that create the goods and services of that economy. And our casualty products ensure that all counterparties can trade securely with us – whether domestic or international. But, as our national interest dictates the new and urgent development of more housing, enhanced industrial production, more robust defence spending and dramatically expanded resource extraction and transhipment capacity, is our industry ready to support that expansion? The answer is almost certainly…Yes…or is it?

**“But, as our national interest dictates the new and urgent development of more housing, enhanced industrial production, more robust defence spending and dramatically expanded resource extraction and transhipment capacity, is our industry ready to support that expansion? The answer is almost certainly…Yes…or is it?”**

My hesitancy is based on a specific experience several years ago, when I and many other industry specialists worked to advise a province that had suddenly discovered that some of its largest employers and tax revenue producers were in fact finding it difficult to secure adequate insurance capacity for their activities. The province was Alberta. And it was the oil and gas sector that was encountering insurability challenges. The politics of the time were giving many key insurance capacity providers pause about supporting that critical component of the Canadian economy. In some cases, the Boards of Directors of major insurers had signed onto protocols/pledges forswearing capital provision to larger, carbon-emitting sectors including our “tar sands” (as they were specifically labelled in the signed pledges). Digging into the issue, I quickly discovered that roughly 100% of the insurance capacity available to this sector came from overseas, or from insurers across our Southern border.

Of course, one of the most powerful elements of the global insurance industry model is that we represent a single, integrated capital pool and that this pool of capital is allocated – by Adam Smith's "invisible hand" – to properly price risk around the world and optimize risk transfer across the largest possible pool of risk exposure. But what happens if there is a domestic need…and no domestic capacity available? What happens if the free flow of global capacity is restricted for political reasons?

In the oil and gas sector case that I just mentioned specifically, solutions were found and the issue (perhaps temporarily?) subsided. But the period serves as a sobering reminder that politics can become an obstacle to the free flow of capital and effective risk transfer. And if there is one thing certain about politics right now…it is that the times have become particularly uncertain. Therein lies a risk for Canada's evolving national strategy. Will our new pipelines find capacity? Will new growth sectors (such as defence industries or mining, for example) find capacity? And from whom?

**"I hope that all PACICC Member Insurers are ready to answer the question when asked – what more could they do to serve our country?"**

All this a long way of saying that it seems likely that the Canadian commercial market will be full of new exposures seeking insurance industry capital…and I hope that all PACICC Member Insurers are ready to answer the question when asked – what more could they do to serve our country?

P.S. The departure of Tim Hodgson from our Board (as referenced above) could have left a big hole to fill. However, our Governance and Human Resources Committe had already vetted and approved a first-rate potential replacement, and I am pleased to report that our Board appointed Dougal Macdonald (former CEO of Morgan Stanley Canada) to fill the non-Insurer Director vacancy on April 29.

Alister Campbell, President and Chief Executive Officer at PACICC

# **A poor start to the new year** - by Grant Kelly

Canada's property and casualty (P&C) insurers reported below-average financial results in the first quarter of 2025, with profits down 33.7% from the same quarter last year. The industry's return on equity (ROE) fell from 15.6% in Q1 2024 to 9.8% in Q1 2025. The 2025 figure is slightly lower than the industry's 50-year average ROE of 10.6%.

There were two primary reasons for the decline in profitability. First, underwriting results worsened. Insurance Services Expenses in Q1 2025 were 9.7% higher than in the year prior. Total Insurance Revenue grew by just 5.8% over the same period. The difference in growth rates between these two numbers reduced the industry's Net Insurance Services Result to $2.4 billion – a drop of $527 million. This is 18% lower than the first quarter in 2024.

The disappointing underwriting results were driven by losses in Personal lines. The Net Comprehensive Combined Ratio for Private Passenger Auto was above 100% in all 13 Canadian provinces and territories. A ratio greater than 100% indicates an underwriting loss.

Severe winter weather has resulted in more than $700 million in catastrophic losses so far in 2025. This is three times higher than the $200 million reported in the same period last year. The Net Comprehensive Combined Ratio for Personal Property was 117.8% in Newfoundland and Labrador and 100.8% in Ontario. Underwriting losses in Personal Property insurance are particularly worrisome due to the significant price increases that insurers have introduced over the past two years.

The second major factor lowering the industry's profitability was the adjustment to Net Insurance Finance Income or Expenses. Under IFRS 17, Net Insurance Finance Income or Expenses represents the change in the carrying amount of insurance contracts arising from the time value of money and changes in financial assumptions. It is essentially the impact of movements in interest rates and changes in financial risk on an insurance company's obligations. Interest rates in the first quarter of 2024 were 5%. Over the course of 2024, the Bank of Canada reduced interest rates to 3%. This meant that the expected future income that insurers were expecting to earn on their reserves fell. This adjustment resulted in a $573 million increase in Net Insurance Finance Income or Expenses.

To sum up, trends in interest rates and poor underwriting results in Personal lines made the first quarter of 2025 a challenging period for Canada's P&C insurers. Of course, one quarter does not make or break a year. But the industry is not off to a good start in 2025.

## 2025 Q1 – Summary of Financial Results

All values are from MSA, as of June 6, 2025
Values exclude mortgage insurers* and are in $millions (CAD), except where noted.

| | 2025 YTD | 2024 YTD | Percentage Change |
|---|---|---|---|
| Total Insurance Revenue | 23,779 | 22,481 | 5.8% |
| Insurance Services Expenses | -19,942 | -18,172 | 9.7% |
| Net Expenses from Reinsurance Contracts Held | -1,444 | -1,389 | 3.9% |
| INSURANCE SERVICES RESULT | 2,393 | 2,920 | -18.0% |
| Investment Return | 1,820 | 1,503 | 21.1% |
| Net Finance Income/Expenses | -1,085 | -512 | 111.9% |
| NET INVESTMENT RESULT | 735 | 991 | -25.8% |
| General and Operating Expenses | -1,225 | -1,334 | -8.2% |
| Other Income and Expenses | -1,025 | -868 | 18.1% |
| NET INCOME | 1,677 | 2,528 | -33.7% |
| TOTAL COMPREHENSIVE INCOME | 1,962 | 2,652 | -26.7% |

## Select Solvency Indicator Ratios

| | 2025 YTD | 2024 YTD |
|---|---|---|
| Net Insurance Service Ratio | 89.9% | 87.0% |
| Return on Investment (ROI)* | 4.7% | 4.1% |
| Return on Equity (ROE)* | 9.8% | 15.6% |
| MCT Ratio (Capital Available / Capital Required) | 246.4% | 256.4% |
| BAAT Ratio *(Applicable to Branches)* (Net Assets Available / Capital Required) | 342.7% | 339.3% |

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

# **Unpacking the results of PACICC's 2025 unearned premium survey** by Grant Kelly

If a Canadian solvency regulator loses confidence in the ability of a Member Insurer to remain a going concern and it is placed into liquidation, then PACICC offers two types of benefits to policyholders:

1. Rebates for any premiums paid for coverage they have paid in advance, up to a maximum of 70% of $2,500 ($1,750), and
2. Claims coverage up to PACICC's claims limits of $520,000 for Personal Property, $415,000 for Auto and $400,000 for Commercial policies.

In 2023, as part of its periodic review of coverage and benefits, PACICC conducted a Claims Survey that confirmed that the level of protection offered under its claims limits was in fact very high. However, the Survey did not secure the information required to enable a comparable analysis of unearned premiums. Nor did it provide an answer to the important question – **has the relative importance of unearned premium rebates declined in a world where an increasing percentage of policyholders are using some form of payment installment plan?** In 2024, PACICC conducted its first Survey of Members on this subject – with more than two-thirds of Member Insurers providing data. The objectives of the analysis were to:

1. Confirm the coverage levels offered under PACICC's current unearned premium limits
2. Establish a benchmark for the required Assessments to cover unearned premium rebates in our Systemic Risk Model.

This article presents the results of the learnings from the Survey.

### *Finding #1 – The current limit offers a high level of protection to Personal Property policyholders*

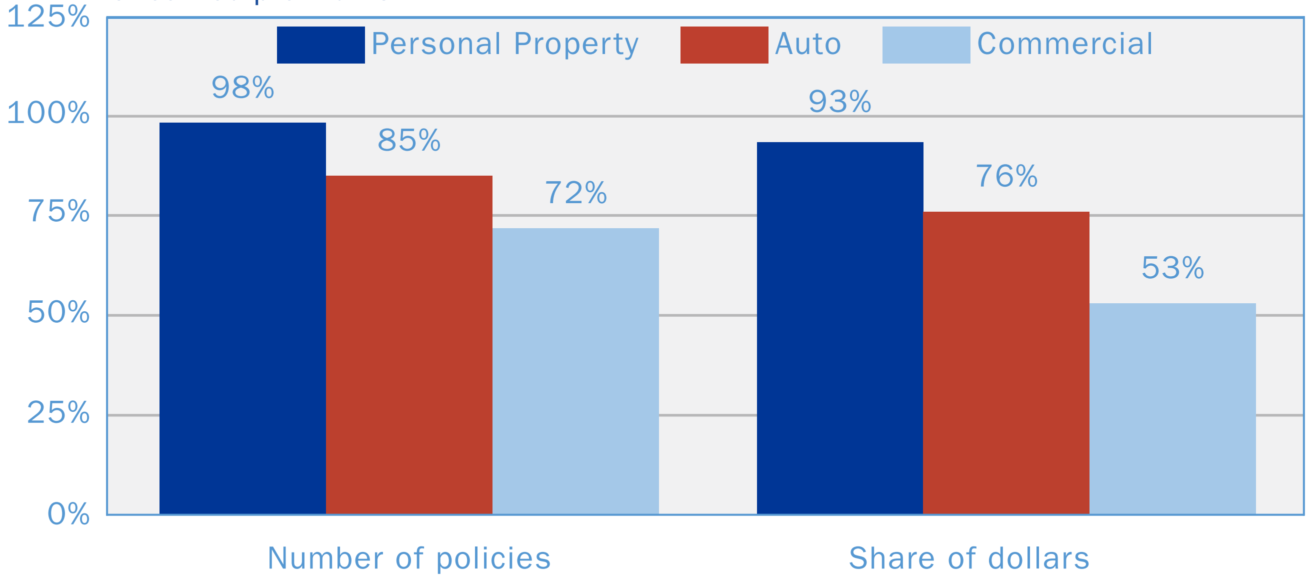
The current limit provides full protection for 98 percent of all Personal Property policies of PACICC Member Insurers. The remaining two percent of Personal Property policyholders would be partially compensated after receiving the maximum Unearned Premiums rebate. This represents 93 percent of unearned premiums for Personal Property insurance collected by PACICC Members. The two percent that were partially protected paid much higher than average premiums for their coverage and/or paid their premiums in full.

In a competitive market, insurers may focus on different target types of homeowners. For instance, there is a segment of Member Insurers that seek to insure higher-value homes. Despite this fact, the level of protection for Personal Property policyholders is high among all PACICC Member companies. Among all Members that responded to the Survey, the level of protection ranged from 95 percent being fully protected to a high of 100 percent protection.

Table #1 compares the estimated level of protection that PACICC's current claims limits provide compared to the level of protection offered under the unearned premium rebate limits. PACICC estimates that the current $520,000 claims benefit limit fully protects some 98.9 percent of Personal Property claims on the books of Member Insurers. The Unearned Premiums limit fully protects approximately 98.0 percent of policyholders.

## Level of PACICC Protection

Unearned premiums




98% of Personal Property policyholders would be fully protected at current PACICC limits. This represents 93% of all unearned Personal Property premiums of PACICC Member Insurers. The other lines can be interpreted similarly.

*Source: PACICC based on data from MSA Research*

### *Finding #2 – The level of protection varies between Personal and Commercial Auto policyholders*

85 percent of Auto policyholders (both Personal and Commercial) would be fully protected under the current unearned premiums rebate limits. That means that 15 percent of Auto policyholders would be only partially protected.  Those fully protected represent 76 percent of unearned premiums held by PACICC Members. The logical conclusion is that the15 percent of policyholders that were only partially protected paid significantly more than the average premium for their Auto coverage.

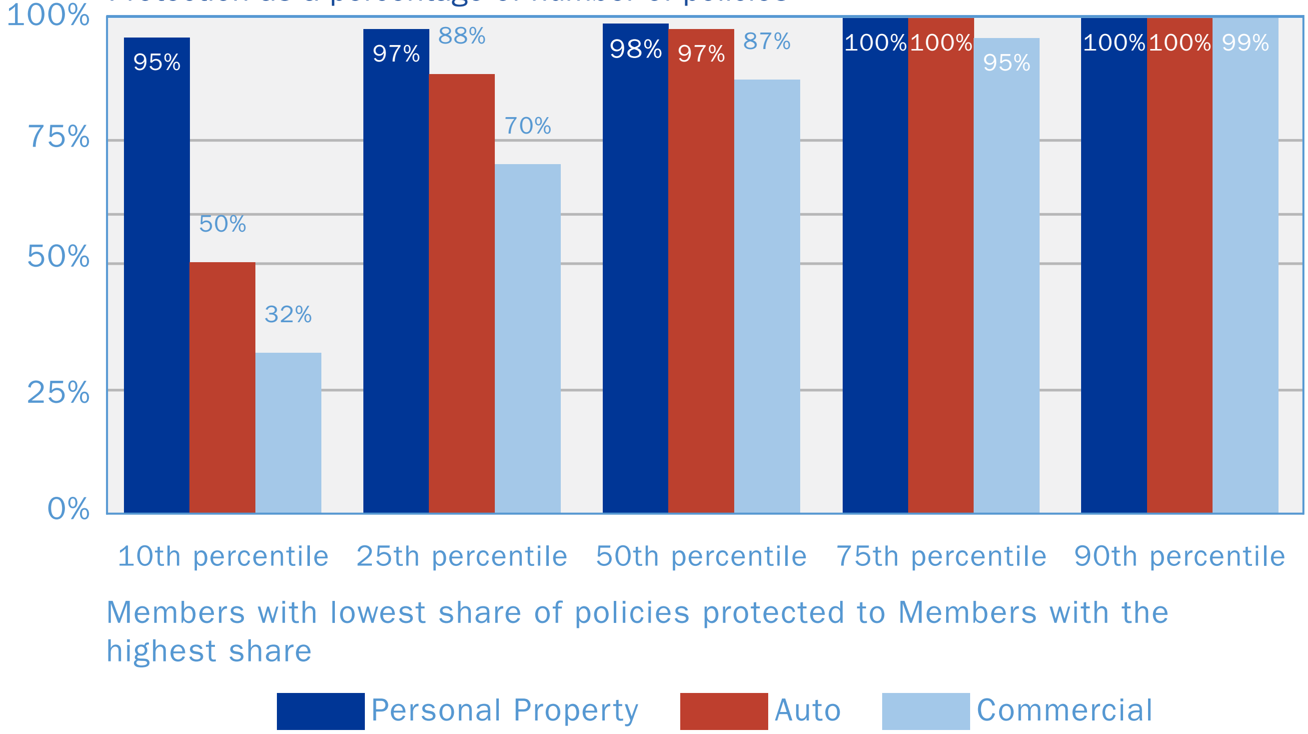
At first, this apparent lower level of protection, relative to Personal Property coverage, may appear somewhat surprising. However, PACICC's premium rebate limit does not distinguish between Commercial and Personal Auto policies. This is likely why the level of protection varies significantly across PACICC Members – based on their mix of Commercial versus Personal Auto policies.  For more than half of the Member Insurers that responded to the Survey, the level of protection provided by the current limits exceeded 97 percent. These insurers likely focus primarily on Personal Auto coverage.

Overall, PACICC estimates that the current $415,000 Auto claims benefit limit fully protects 97.1 percent of Auto claims on the books of Member Insurers. The Unearned Premiums at those Members insurers that focus primarily on providing Personal Auto coverage was approximately 97 percent.

We can safely conclude that the level of protection for Personal Auto policyholders is very high. It is equally safe to conclude that the level of protection for Commercial Auto policyholders is lower.

## Unearned premium rebate protection varies across Member Insurers

Protection as a percentage of number of policies




*Source: PACICC based on data from MSA Research*

### *Finding #3 – The level of unearned premium rebate protection for Commercial insurance policyholders is lower*

The unearned premium rebate (UPR) study was based on limits in force at the time – in 2023. PACICC estimates that 72 percent of Commercial insurance policies would be fully protected at the current limits. The remaining 26 percent of Commercial policyholders would be only partially protected. These rebates represent approximately 53 percent of the amount on the books of Member Insurers that offered Commercial insurance policies.

### Comparing Level of PACICC Protection

| | Personal Property | Auto | Commercial Property | Commercial Liability |
|---|---|---|---|---|
| | **Protection based on # of claims and policies** | | | |
| Claims Limit | 98.9% | 97.1% | 95.9% | 94.1% |
| Unearned Premiums Limit | 98.0% | 85.0% | 72.0% | 72.0% |
| | **Protection based on dollar values** | | | |
| Claims Limit, $ | 84.8% | 71.4% | 46.9% | 53.2% |
| Unearned Premiums Limit, $ | 93.0% | 76.0% | 53.0% | 53.0% |

*Source: PACICC based on data from MSA Research*

PACICC estimates that the current $400,000 per policy claims limit for Commercial policies fully protects 94 to 96 percent of Commercial claims. The level of protection for Commercial policyholders for unearned premium rebates is significantly lower that the level of protection on the claims made on these policies. The PACICC model has historically been focused primarily on retail policyholders, so this relatively lower level of protection for higher-premium-paying Commercial policyholders may not be a significant issue. It is worthwhile however to ensure full transparency regarding this proportionate differential between Personal and Commercial coverage.

### *Finding #4 – PACICC's future "best estimate" for required unearned premiums rebates will be lower than past "maximum exposure" estimates*

In PACICC's Systemic Risk Model, our legal obligation was to estimate the Corporation's "maximum exposure" and notify the Members immediately. In PACICC's Model, this has meant that we have had to assume a full limit payment for 50% of all policies. In PACICC's 2020 "Tipping Point" paper, this assumption alone meant that roughly one-third of the total Assessment required was solely to cover the rebate for unearned premiums. In 2023, PACICC made a significant change in its Memorandum of Operation, which was intended to mitigate systemic risk in Canada's P&C insurance industry by modernizing the legal language of our estimation obligation.

In a future insolvency, PACICC's estimate will now be based on an actuarially determined "best estimate." This best estimate will be developed using new IFRS 17 accounting standards. Our survey confirmed that PACICC can safely use Liabilities for Remaining Coverage ("LRC") on Member financial statements as the basis for estimating unearned premium obligations. Our Survey also revealed that the LRC on our Members' balance sheets is significantly lower than our historical assumption. When our Model is fully updated later this year, this new Survey finding will likely contribute to a materially higher industry "Tipping Point."

### *Finding #5 – The new IFRS 17 accounting standard makes data collection for Unearned Premium very challenging*

PACICC's mission is to protect policyholders in the unlikely event that their home, auto or business insurer becomes insolvent. For obvious reasons, all of the industry's accounting infrastructure is built assuming that the insurer is a going concern, and that the company will not fail. This is a fundamental difference that can/will make data collection regarding unearned premiums challenging for PACICC and a Court-appointed Liquidator. This challenge is compounded by the new IFRS 17 accounting standard. Several Member Insurers reported that they had difficulties providing PACICC with the data requested because their new accounting systems were not able to provide it. In many cases, these Members required special assistance from IT professionals to extract the data from the company's underwriting system to reply to our Survey.

These issues – coupled with our finding regarding the decline in significance of total unearned premiums – amplify the logic for a more comprehensive review regarding the need to continue offering unearned premium coverage as a component of the PACICC policyholder value proposition. We will be discussing this with our Board of Directors and with our Regulatory partners later this year.

# Emerging Issues

## *Insurance-linked Securities: Alternative Capital for a More Resilient Canada* – by Iann Villar

The reality that Canada's insurance industry has a "Tipping Point" threshold – which PACICC has defined as a CAD$30 to CAD$35-billion catastrophe – where Members begin to fail, and the capacity of the industry is exceeded…is now well understood by all stakeholders.

That risk is worth bearing in mind, when Canada has just had its costliest natural disaster year yet. A relentless series of summer floods, storms and wildfires caused record insured losses of near CAD$9 billion,[1] according to Gallagher Re's analysis.

Given that an increase in catastrophes and their costs has been seen time and time again, now would be as good a time as ever to act instead of react (after the fact) and encourage alternative sources of capacity to come to the Canadian market to expand reinsurance capital and make Canada more resilient.

In a groundbreaking development at the start of 2025, TD Insurance issued the first ever pure Canadian risk non-life catastrophe bond, MMIFS Re Ltd. 2025-1.[2] The bond provided CAD$150 million in reinsurance protection against Canadian earthquakes and severe convective storms backed by investors from around the globe.

This issuance represents a significant milestone in the insurance-linked securities (ILS) market, as another country now has access to the capital markets to work towards narrowing their protection gap. It not only highlights the ILS market's expanding geographical reach, but also its adaptability – offering tailored solutions to address specific regional catastrophe risks. This is evidence of investor interest in Canadian perils and showcases the introduction of additional capacity for Canada. Where TD has led, many other Canadian issuers may follow.

### *Cat bonds – a burgeoning market*

If you're not familiar with catastrophe bonds, here's a brief overview. Cat bonds are the most well-known form of insurance-linked securities; an alternative to reinsurance that allows insurers, reinsurers, corporations and governments to transfer their catastrophe risk to the capital markets.

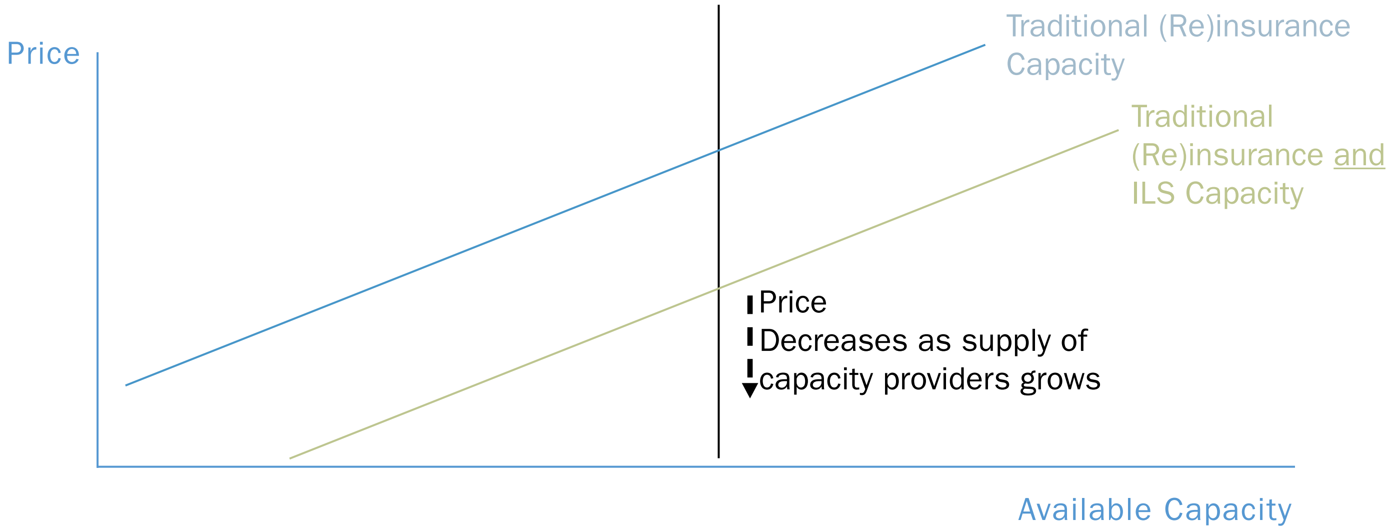
By securitizing the risk from perils such as hurricanes, earthquakes, severe convective storms, wildfires and winter storms (to name a few) into tradable bonds in lieu of a non-tradable reinsurance line, protection buyers can access a valuable diversifying source of capital. Cat risk is spread far and wide across a syndicated investor base, reducing dependency on individual reinsurers.

Cat bonds complement the traditional reinsurance market, lowering the price of capacity in many cases according to the law of supply and demand, as seen in the illustration below. This gives buyers additional levers to pull when optimizing their cat reinsurance programs, which can lead to impressive

[1] Natural Catastrophe and Climate Report: 2024, p53, Gallagher Re, January 2025

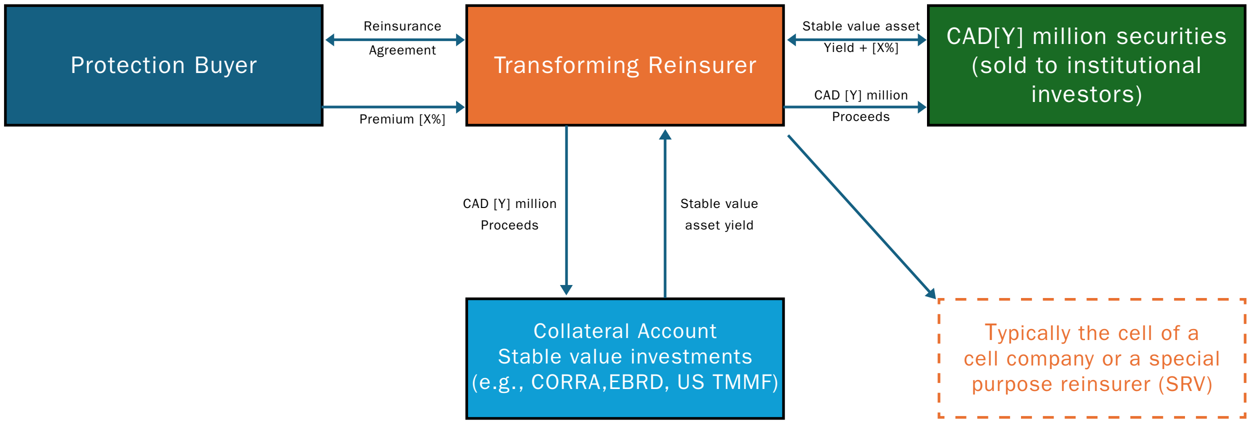
[2] TD Insurance Successfully Sponsors $150 Million Cat Bond with Closing of MMIFS Re Ltd. Series 2025-1, TD Bank Group, 23 January 2025

savings on a reinsurance placement. Cat bonds are also fully collateralized and often have multi-year terms (unlike traditional reinsurance, which typically operates on an annual renewal cycle). This enables cedants to lock in favorable pricing for an extended period while also locking in returns for investors.



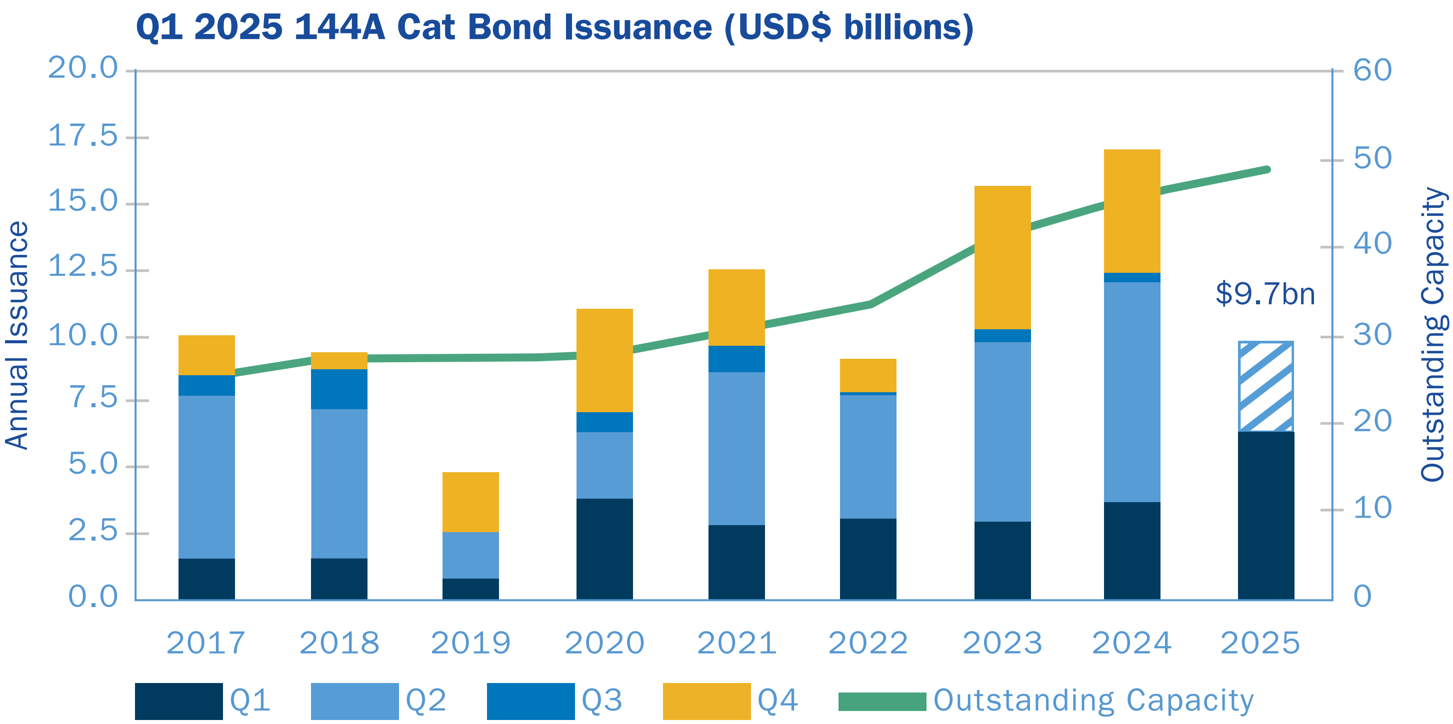

Typically, cat bonds are structured so that a "transforming reinsurer" stands between the protection buyer purchasing coverage and the investors purchasing the bonds (see illustration below).

## A typical cat bond structure




### *State of the market*

With over USD$50 billion of non-life capacity outstanding as of May 15, 2025, the cat bond market has grown significantly since its inception in the mid-1990s. There were back-to-back record years for issuance in 2023 and 2024, with over USD$17 billion issued last year alone. Thus far, 2025 has continued to build on that momentum with an extremely active issuance schedule. Q1 was a record first quarter, with over USD$7 billion issued (excluding mortgage and life bonds). Strong demand to issue from sponsors, coupled with ample cash from investors, has resulted in deal upsizes and spread reductions for many. 2025 shows every sign of being another record-breaking year.




*Source: Gallagher Re Securities Database*

Cat bond investors are all qualified institutional buyers, which means that they all manage at least USD$100 million in securities. They can write institutional-size cheques, reinforcing the capability of ILS as an alternative to reinsurance. The dominance of US peril transactions drives strong investor appetite for diversifying perils such as Canadian risks. TD's issuance was clear empirical evidence of this.

### *Strong investor interest*

Cat bonds are versatile financial instruments that can provide coverage for a range of perils and triggers. While US hurricane risk is the dominant peril covered in the market, other significant perils have become mainstays over the last two decades – such as US earthquake, Japanese earthquake, European windstorms, and more recently even cyber risk.[3] They can be tailored to cover a single peril, such as earthquakes in British Columbia, or multiple perils combined, like severe convective storms and earthquakes across British Columbia and Alberta.

The market has extended its reach geographically in recent years, too. In the earthquake peril, for example – which accounts for about 10% of the cat bond market – there have been issuances covering earthquake risk in Chile, Italy, Germany, Turkey, Peru, Argentina, New Zealand, and Mexico. There is no reason the market wouldn't accept Canadian earthquake risk. Broadly speaking, cat bond investors' attitude is: if it's not peak peril, it's a diversifier. Investors want diversifiers and will gladly welcome them.

In the past couple of years, investor returns have been excellent. In 2023, they were the best-performing strategy for hedge funds – returning 19.69% for the year. This was followed by a 17.29%

[3] Cyber ILS: Looking to the future Gallagher Re, 2025

return in 2024. As you can imagine, this has led to plenty of attention from media outlets like *The Wall Street Journal*,[4,5] *Financial Times*[6] and *Bloomberg*,[7] creating a "buzz" around the asset class.

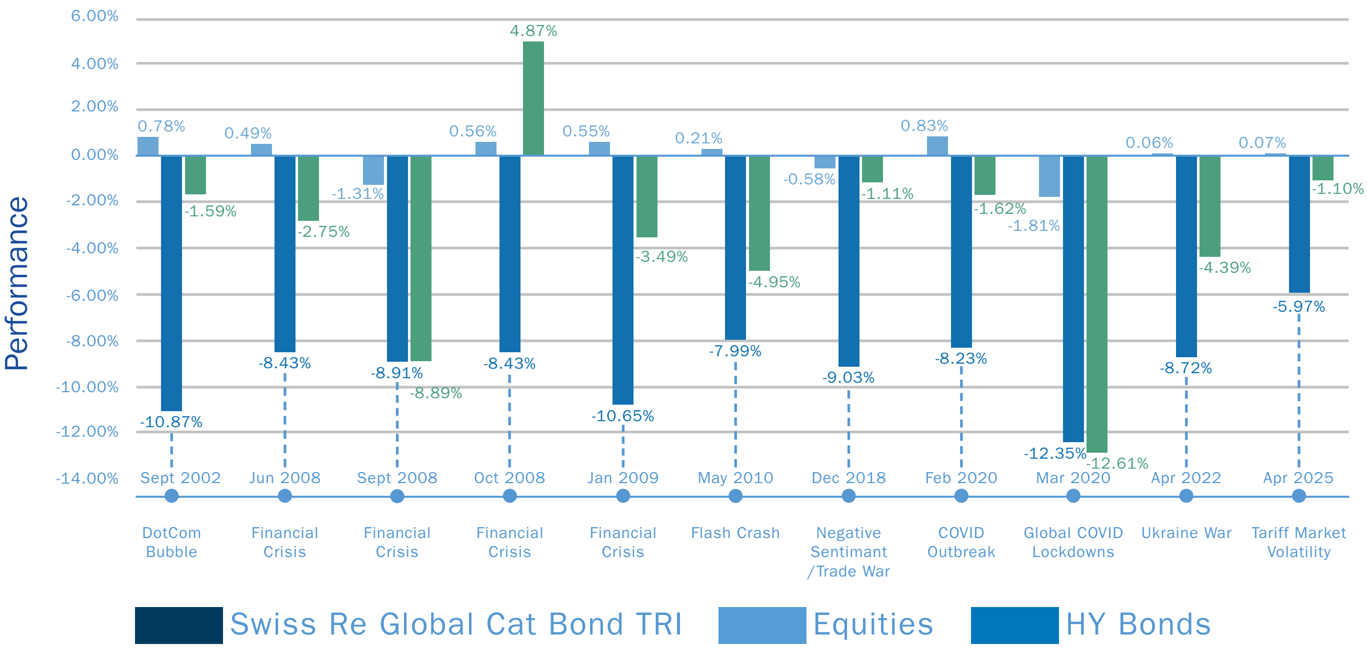
Aside from hedge funds, investors in cat bonds include some of the largest asset managers, pension funds, endowments, sovereign wealth funds and family offices – often through, or alongside ILS-specific fund managers. Canadian pension funds, such as the Healthcare of Ontario Pension Plan[8] and the Ontario Teachers' Pension Plan,[9] have been at the forefront of this trend. While many of these investors consider cat bonds primarily a "buy and hold" investment, these securities do trade in the secondary market, providing ample liquidity as well as pricing transparency.

### *Beta investment – market correlation*

Cat bond returns are also largely uncorrelated to equities, fixed income or other common institutional investments, because their income streams are linked to natural catastrophes. One might imagine that large Nat Cat events would have an adverse effect on stock markets or rate environments, but in fact, there has been little to no such effect in the past. And clearly, there is zero causation in the other direction: falling financial markets do not cause natural catastrophes.

This lack of correlation has held true during significant stock-market declines, of which we gained another example in Q1 2025. Cat bond prices have remained steady throughout the recent tariff-related volatility, again highlighting this low correlation benefit.

**Cat bond monthly returns during periods of market volatility**




*Source: Gallagher Re Securities Database*

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[4] Investors' Bets on Mother Nature Are Paying Off Big, *The Wall Street Journal*, 29 September 2023

[5] Hurricanes and High Yields Come Together on Wall Street, *The Wall Street Journal*, 2 September 2023

[6] First cat bond ETF opens new frontier in low-correlation returns, *Financial Times*, 1 April 2025

[7] Hedge Fund Fermat Sees 20% Surge in Catastrophe Bond Market, Bloomberg, 14 May 2025

[8] Healthcare of Ontario Pension Plan grows ILS 39% in 2024 to USD1.32bn, Artemis.bm, 13 March 2025

[9] Ontario Teachers' is backer of new Ledger casualty ILS fund, *The Insurer*, 19 January 2022

### *Conclusion*

At Gallagher Re and Gallagher Securities, we believe cat bonds provide an excellent complement to traditional reinsurance, and a valuable addition to both C-suite toolkits and institutional investment portfolios. Through significant growth and experience, the ILS market has firmly established itself as a critical component of the risk transfer ecosystem.

Driven by steady expansion into new perils and geographies – now including Canada – the market continues to demonstrate adaptability and resilience for cedants. Cat bonds' impressive and uncorrelated returns, even amid global market volatility, are likely to keep investors engaged. The alignment of interest between cedants and investors allows for a catastrophe bond strategy to continue to be a win-win for all parties.

Looking ahead, Canada will be made more resilient, supported by the growing capacity provided by the cat bond market, which is set to keep innovating to meet the needs of both sponsors and investors in a dynamic risk landscape that is ever evolving and volatile!

Iann Villar, Partner, Vice President, ILS, Gallagher Re

# PACICC Priority Issues: Updates

### *Managing Systemic Risk*

As industry stakeholders are aware, PACICC's Board established "Mitigating Systemic Risk" as a Permanent Priority Issue, until such time as some form of federal liquidity backstop mechanism is finally put in place. We continue to highlight the alarming fact that Canada is the only major developed nation with significant earthquake exposure and no structured plan (e.g. public/private partnership or government backstop) to address the systemic risk that such an event could represent. While several Federal Finance Ministers have expressed a commitment to address this issue over the past few years, a solution remains elusive. The recent federal election and trade war in the early months of 2025 have further slowed any action on this issue.

We are hopeful that the election of a new government, committed to bolstering Canada's strength and resilience in the face of unexpected external threats, will seek to embrace this file. We continue to liaise with Finance Canada, OSFI, and other key stakeholders, as appropriate. PACICC and IBC remain united in our advocacy efforts to bring about a solution.

As we await action from government, PACICC has been busy with other "incremental" initiatives to help to mitigate systemic risk. With the support of our regulatory partners, PACICC amended its Memorandum of Operation (MoO) to now require that any Assessments for future insolvencies be based on "best estimate" rather than "maximum exposure." Finance Canada is now considering a formal request from our Board that PACICC be designated as a "compensation association" under the *Insurance Companies Act*, enabling PACICC to serve as a trusted counterparty in crisis scenarios. And, last year PACICC partnered with the British Columbia Financial Services Authority to conduct an insolvency simulation exercise designed to test the limits of policyholder protection following a major Nat-Cat event.

At its April 29 meeting, PACICC's Board approved a By-Law amendment (pending regulatory approval) that will require Members to provide PACICC with access to loss exposure data, for solvency monitoring purposes. PACICC had received strong Member support for this initiative – some 98 percent of respondents approved information sharing in PACICC's January/February consultation with Members. This commercially sensitive information will be protected by a newly established and comprehensive Data Governance Policy that will ensure safe acquisition, processing, storage and handling. Also at that meeting, the PACICC Board approved a Memorandum of Operation amendment (also pending regulatory approval) that will remove unintended obstacles to PACICC's borrowing capacity (beyond "bank" borrowings), and allow for interest payments to be funded via Administrative Assessment and debt repayments through PACICC's General Assessment mechanism.

PACICC has also proposed to OSFI that it incorporate a specific line in both the Minimum Capital Test (MCT) and the Branch Adequacy of Assets Test (BAAT) to reflect any multi-year PACICC Assessment obligations of PACICC Member Insurers (PACICC Assessment Liabilities). In a period of systemic crisis, OSFI would then be in a position to adjust the capital treatment of such specific obligations, thereby reducing the potential for systemic risk.

Work is planned in other areas in the coming months to address systemic risk, including:

- **An Updated Risk Appetite Limit –** The PACICC/BCFSA desktop exercise showed that, in certain scenarios, our Assessment mechanism could be overwhelmed earlier than previous modelling had suggested (our current Board-defined Risk Appetite Limit is $2.8 billion, twice PACICC's maximum assessment capacity). Given this finding, as well as potential changes in our liquidity capacity, it is appropriate for PACICC to revisit its defined Risk Appetite Limit
- **Further Desktop Insolvency Simulations –** PACICC is planning another desktop earthquake simulation exercise in Ottawa in the fall of 2025, involving a range of senior federal and provincial decision makers
- **Sequential Perils –** We are discussing with regulatory partners and the Canadian Institute of Actuaries the need to enhance stress testing around sequential events such as aftershocks
- **Update our Systemic Risk Model –** In late 2025 or early 2026, PACICC plans to publish a revised "tipping point" paper, incorporating newly accessible reinsurance information.

None of the above initiatives will enable PACICC to respond to an earthquake with insured losses beyond the "tipping point" threshold. Notwithstanding all of our efforts, a financial/liquidity backstop is still needed in order to protect Canadians from our "peak peril."

## Enhancing Resolution Capabilities

The International Association of Insurance Supervisors (IAIS) defines "resolution" to mean the actions taken by a resolution authority toward an insurer that is no longer viable. These actions are clearly within PACICC's mandate and mission. The Financial Stability Board (FSB) has now publicly detailed the key attributes of an "insurance resolution regime," including a resolution authority. At present, Canada lacks such a national Authority. Instead, the responsibilities are shared among regulators, PACICC and our sister organization in the Life industry, Assuris. Working through how best to achieve FSB expectations within the context of Canada's federated model is a shared priority of PACICC and OSFI.

PACICC's review of FSB key attributes determined that a key step in enhancing our resolution capabilities would be the successful incorporation and chartering of a "Bridge Insurer." Such an entity would meaningfully enhance PACICC's response capabilities in a range of distress/crisis scenarios.

In mid-2024 PACICC submitted a formal application to OSFI for the creation of PACICC-SIMA General Insurance Company (PGIC). The application is now being considered by the Minister of Finance. Once approval is secured, the next step would be to seek the licensing of PGIC in all Participating Jurisdictions (10 Provinces and three Territories). Seeing this project through to completion will be a key priority for PACICC in the second half of 2025 (and likely into 2026). Our Pre-Insolvency Regulatory Liaison (PIRL) Committee will be actively involved in the establishment and implementation of an appropriate governance model for this shell entity.

PACICC is also working with OSFI and Assuris to develop an approach to resolution planning for Internationally Active Insurance Groups (IAIGs) in Canada. OSFI already requires IAIGs to engage in recovery planning. This will soon be expanded to include resolution planning and the establishment of Crisis Management Groups for IAIGs. OSFI has established a Crisis Readiness Team in Supervision, as a centre of excellence on Recovery and Resolution. This team is responsible for managing the relationship with compensation associations. PACICC will be actively engaged with OSFI and Assuris in the months ahead on how we can support these efforts to enhance resolution planning and crisis management.

## Expanding our Financial Capacity – Exploring Medium-Term Capacity Options

PACICC currently has $63.4 million (April 2025) in liquid assets in its Compensation Fund, as well as a $250M standby line of credit facility with a syndicate of Canada's big-six banks. This represents the Corporation's short-term financial capacity. PACICC estimates that this amount would be enough for the Corporation to manage the liquidation of all but the 15-largest PACICC Member Insurers.

PACICC's MoO allows it to levy Assessments on Member Insurers of up to 1.5% of Direct Written Premiums, within any single calendar year. This is PACICC's long-term financial capacity (currently $1.4 billion annually). Over the course of 2024, we engaged with major rating agencies to secure a credit rating for PACICC. Maintaining these ratings (subject to annual review) is inexpensive and consistent with our "low-cost optionality" strategy. Late last year, we secured high investment-grade ratings from two major credit rating agencies. It now appears that we could be in a position to secure larger, longer-term liquidity solutions for the industry – enabling PACICC to respond to larger insolvency situations, without contributing to systemic stress in a period of crisis.

In the coming months, PACICC will work to better understand the steps required to operationalize such debt issuance (accounting treatment, debt structure, etc.). We will also revisit reinsurance and insurance-linked securities options for contingent capital solutions, as it seems that there have been some developments in the parametric market since PACICC last reviewed this subject area as the pandemic took hold.

### *Annual Inflation Adjustment to PACICC Benefit Limits*

PACICC reviews its Coverage and Benefits levels every five years. Annual inflation adjustments ensure that the real value of the level of protection provided by PACICC for personal lines remains relatively steady over that five-year review period. As recommended by PACICC's Actuarial Advisory Committee, the PACICC Board approved the following inflation-adjusted Claims Limits for 2025, effective July 1:

- $530,000 per Personal Property policy (up from $520,000);
- $425,000 per Auto policy (up from $415,000); and
- $425,000 per B.C. Auto policy (up from $415,000).

# PACICC Welcomes New Board Member

**Dougal Macdonald**
***Independent Director***

Consultant
Former President & CEO
of Morgan Stanley Canada

# 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 23**

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|---|---|
| Speaker: | **Matt Moore**<br>Senior Vice President, Insurance Institute for Highway Safety / Highway Loss Data Institute |
| Topic: | The Risks of Lithium-Ion Batteries and Electric Vehicles |

### 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 11**

| | |
|---|---|
| Keynote: | **Neil Morrison**<br>Chair Designate, Aviva Canada Inc. |
| Topic: | Board Member Perspective on ERM |
| Discussion 1 | |
| Speakers: | **Speaker(s) TBA** |
| Topic: | Ontario Auto Insurance Reform |
| Discussion 2 | |
| Speakers: | **Sonia Kundi**<br>Chief Risk Officer, Zurich Cover-More<br>**Tracy Mann**<br>Vice President, ERM and Chief Compliance Officer<br>Definity Financial Corporation<br>**Jean-Philippe Daigle**<br>Chief Risk Officer, Desjardins Insurance<br>**Ian Campbell**<br>Vice President, Operations, PACICC |
| Topic: | Results of 2025 PACICC Benchmark Survey on ERM |

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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PACICC

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