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 32 - January 2026

From the Desk of the President (Alister Campbell)
When the Report Card says "Needs Improvement"
I know that very few of the elite readers of this newsletter have ever received a Report Card with the teacher's stern warning – "Needs Improvement." But I can speak from personal experience in confirming that it tends to have... ...Continued on Page 2

Forecast Uncertain: Calm Cat Season Brightens Q3, Yet Market Softness Darkens Outlook (Jeff Stewart)
Canada's Property and Casualty (P&C) insurers delivered strong profitability in the first nine months of 2025, posting a Return on Equity (ROE) of 15.7%. This represents a notable improvement over the 13.3% recorded during... ...Continued on Page 5

What do the new IFRS 17 Key Metrics tell us?
A Q3 Perspective & Analysis (Jeff Stewart)
The adoption of IFRS 17 (replacing IFRS 4) represents one of the most significant changes in insurance accounting in decades. For Property & Casualty (P&C) insurers, the impact is substantial, despite the short-term nature of their contracts. ...Continued on Page 7

Emerging Issues (Marie-Claire Albanese)
Assuris is Modernizing its Funding Tools
Through proposed amendments set to be incorporated into its By-Law in 2026, Assuris is looking to modernize its specific and loan assessment funding tools. These are tools that Assuris can use to fund a transfer of policies from... ...Continued on Page 11

PACICC Priority Issues: Updates
Managing Systemic Risk "Mitigating Systemic Risk" continues to be a Permanent Priority Issue for PACICC, until such time as some form of federal liquidity backstop mechanism is finally put in place. In its November 4 Budget, Canada's new government signalled its intent to consult with Canada's P&C insurance industry... ...Continued on Page 13

Risk Officer's Forum (Ian Campbell)
Upcoming Risk Officer's Forum meetings and webinars
Emerging Risks Webinar – Thursday, February 26

...Continued on Page 16

NEXT

From the Desk of the President

When the Report Card says "Needs Improvement"

by Alister Campbell

I know that very few of the elite readers of this newsletter have ever received a Report Card with the teacher's stern warning – "Needs Improvement." But I can speak from personal experience in confirming that it tends to have a sobering effect (at least the first dozen times or so, at least). A range of reactions are possible when given such a grade. On my list would have been logical (at the time) responses such as anger and denial. But, in the end, I learned that the correct response was always just to buckle down and work out how to improve what needed to be improved. Canada just got one of these Report Card grades this year – from the International Monetary Fund (IMF). If and how we respond will be important questions to answer for all participants in Canada's financial services safety net.

The IMF established something called the Financial Services Assessment Program (FSAP) in 1999. For developed economies such as Canada, the primary objective is to gauge the stability and soundness of a country's financial sector. A FSAP Report summarizes results of stress tests of financial institutions, provides an evaluation of the quality of supervision and regulation, and offers an assessment of each country's crisis management framework. Canada was the first G-7 country (of course) to undertake a FSAP review back in 1999-2000. Our last review was conducted in 2019. The most recent Report landed in August of this year. Clocking in at 77 pages, the 2025 Report contains 24 "Key Recommendations" threaded through 95 numbered paragraphs. You can check it out yourself via this Link.

Even more fun, in the back of the latest Report, you can find a table which tracks performance against the 2019 Report's 16 Key Recommendations. Of these, only one is declared to be "Implemented," 11 are deemed "Partially Implemented" and four simply marked as "Not Implemented." They don't actually provide a summary Report Card grade, but the tone is clear…Needs Improvement!

> **"This new engagement opportunity gave us the chance to describe our own unique role in the Canadian financial services system, showcase our success stories in protecting policyholders when insurers fail, and propose our own list of areas for improvement."**

Here at PACICC, we paid close attention to the 2025 FSAP Report partly because – for the first time – we were interviewed by the IMF team as part of their evaluation process. This new engagement opportunity gave us the chance to describe our own unique role in the Canadian financial services system, showcase our success stories in protecting policyholders when insurers fail, and propose our own list of areas for improvement. The resulting Report has a whole paragraph (numbered 85 for those now reading along) regarding Insurance Resolution. It contains some welcome commentary but also incorporates some more sobering elements. Here it is in full:

85. A resolution framework for insurance companies needs to be developed. There is no designated resolution authority for the insurance sector and the work on resolution planning has yet to start. The sector has two well-established industry-funded policyholder protection institutions for the P&C and life insurance sectors. Both have previously dealt with insurers' failures successfully, but their ability to help resolve systemic institutions is limited in absence of additional tools and access to funding. Issues of confidentiality, and board independence in one of those institutions, also limit their ability to effectively assist in crisis preparedness. Finally, liquidation of insurers falls under the *Winding-up and Restructuring Act (WURA)*, which is an outdated law that requires full re-examination. Any change in this area should cover provincially chartered insurers."

There is lots to chew on in this frank feedback. It is clear for a start, that the IMF's focus is on systemic risk and the capacity of our system to respond in scenarios of maximum stress. So, while we (and our Life insurance colleagues at Assuris) get full marks for prior successes managing smaller insolvencies (Assuris would argue that Confederation Life was not small), doubts remain about our capabilities to manage cases of financial distress of larger Member Insurers. Fair enough. Since we have never had to face this challenge, there is no counterfactual available, although we did point out that our Global Failed Insurer Catalogue now comprises 965 insurance company failures since 2000, of which precisely none were systemic. And we walked the IMF through measures that we had taken at PACICC to increase our capacity to manage larger challenges, including our $250 million line of credit, our Board-approved Resolution Protocol, new credit ratings and a new "Bridge insurer." But, apparently the IMF wasn't entirely convinced. Obviously a tough marker!

It is also clear that the IMF struggles to understand the unique nature of our Canadian federation. Proposing a single resolution authority (presumably federal?) in the first sentence, but then urging the inclusion of provincially-chartered insurers in the last sentence, sure leaves a lot of difficult jurisdictional issues unspoken. Perhaps more practical, would be a national, co-ordinating, crisis management group structure with appropriate federal and provincial stakeholders at the table, alongside the guarantee mechanisms such as PACICC.

"It is also clear that the IMF struggles to understand the unique nature of our Canadian federation. Proposing a single resolution authority (presumably federal?) in the first sentence, but then urging the inclusion of provincially-chartered insurers in the last sentence, sure leaves a lot of difficult jurisdictional issues unspoken."

The highlight for us in this paragraph was the IMF's reaffirmation that Canada must move to modernize and/or replace the *Winding-up and Restructuring Act (WURA)*. The more policy work we do on how to better manage systemic risk events, the more evident it becomes that this country needs better resolution options, and the federal regulator more resolution tools. Both need to be addressed through a revision or replacement of *WURA*, sooner rather than later. We are very much hoping the message has been more firmly taken on board in Ottawa this time around.

The lowlight of the Report was obviously the specific reference to PACICC's "board independence." We continue to maintain that our governance has never failed to respond effectively in a crisis. That the evolution of our Pre-Insolvency Regulatory Liaison (PIRL) Committee, comprising our non-Insurer Directors as an effective interlocutor with supervisory authorities in the exchange of confidential information, has positioned us better than ever. And that our current operating model has also worked impeccably in insolvency simulation desktop exercises involving significant systemic stress. This all being said, as we look to engage with federal and provincial counterparties in addressing the “Needs Improvement” grade in Canada’s latest Report Card, we will have to accept that our governance model will once again be under scrutiny.

No one likes a bad Report Card. And, to be fair to Canada, the IMF had lots of kind words across the full spectrum of our financial services system and safety nets. But choosing to accept the “Needs Improvement” feedback in good faith, and turning our minds collectively toward how we can do more and better, will be among our New Year’s Resolutions here at PACICC. In the meantime…Happy Holidays to all!

Alister Campbell, President and Chief Executive Officer at PACICC

Forecast Uncertain: Calm Cat Season Brightens Q3, Yet Market Softness Darkens Outlook - by Jeff Stewart

Canada's Property and Casualty (P&C) insurers delivered strong profitability in the first nine months of 2025, posting a Return on Equity (ROE) of 15.7%. This represents a notable improvement over the 13.3% recorded during the same period in 2024, and exceeds the industry's 50-year long-run average by approximately 5.5%.

The industry delivered strong underwriting results, supported by lower Insurance Service Expenses (down 3.3%) and higher Insurance Revenues (up 6.6%), driving a $2.5 billion increase in the Net Insurance Services Result (up 37.4%), compared to the same period last year. A major factor was net expenses from reinsurance contracts held, which surged 366.9%, reflecting an unfavourable $4 billion shift in the balance between reinsurance premiums paid and claim recoveries. This change was largely welcomed by insurers, as it relates to a sharp decline in catastrophic losses, from over $9 billion in Q3'24 to just above $2.1 billion in Q3'25. The shift in reinsurance cash flows highlights a reversal from last year, when reinsurers absorbed significant volatility to stabilize the market, and reflects a much more profitable primary property market environment this year.

Underwriting performance in Canada's Private Passenger Auto insurance market remained notably weak. The Net Comprehensive Combined Ratio (NCCR), a key measure of underwriting profitability that incorporates insurance service expenses, reinsurance costs, general and operating expenses, as well as net insurance and reinsurance finance expenses relative to net insurance revenue, serves as a critical indicator. A result above 100% reflects an underwriting loss and signals that this line of business is eroding the industry's capital base. During the first nine months of 2025, the NCCR exceeded this threshold in every province and territory except Quebec, Ontario, and the Northwest Territories. Although the industry-wide result has improved by 5% compared to the prior year, these negative results continue to highlight an unsustainable trend.

The prolonged and widespread wildfire season in Canada significantly impacted Personal Property insurance outcomes across Newfoundland and Labrador, Ontario, Manitoba, and Saskatchewan. These provinces reported NCCRs exceeding 100%, with Newfoundland and Saskatchewan experiencing the most pronounced deterioration, surpassing 130%.

Commercial Property and Liability insurance remain the most profitable segments among Canada's P&C insurers, with year-to-date NCCRs of 90% and 88.5%, respectively. This sustained profitability continues to fuel speculation of a softening market, as competitive pressures and available capacity drive rate reductions. Notably, Newfoundland and Labrador in Commercial Property, and the Yukon in both Commercial Property and Commercial Liability, are the only regions reporting NCCRs exceeding 100%, highlighting a very limited number of localized challenges amid an overall favourable environment.

While the overall industry performance reflects above-average results, profitability among PACICC's 163 Member Insurers varied significantly. Approximately 10% of these insurers reported net income losses during the first nine months of 2025. However, no single trend appears to explain these outcomes. Instead, each case stems from unique circumstances, often linked to unfavourable underwriting in certain product lines or a high concentration of business within specific provinces. PACICC will continue to closely monitor these insurers' performance.

2025 Q3 – Summary of Financial Results

All values are from MSA, as of November 28, 2025
Values exclude mortgage insurers and are in $millions (CAD), except where noted.

	2025 Q3	2024 Q3	Percentage Change
Total Insurance Revenue	73,770	69,201	6.6%
Insurance Services Expenses	-59,336	-61,365	-3.3%
Net Expenses from Reinsurance Contracts Held	-5,196	-1,113	366.9%
INSURANCE SERVICES RESULT	9,238	6,724	37.4%
Investment Return	5,695	6,078	-6.3%
Net Finance Income/Expenses	-2,422	-3,132	-22.7%
NET INVESTMENT RESULT	3,273	2,946	11.1%
General and Operating Expenses	-2,717	-2,886	-5.9%
Other Income and Expenses	546	944	-42.2%
NET INCOME	8,251	6,521	26.5%
TOTAL COMPREHENSIVE INCOME	8,836	7,565	16.8%

Select Solvency Indicator Ratios

	2025 YTD	2024 YTD
Net Insurance Service Ratio	87.5%	90.3%
Return on Investment (ROI)	4.8%	5.4%
Return on Equity (ROE)	15.7%	13.3%
MCT Ratio (Capital Available / Capital Required)	251.3	242.7
BAAT Ratio *(Applicable to Branches)* (Net Assets Available / Capital Required)	340.1	319.4

Jeff Stewart, Vice President, Finance, PACICC

What do the new IFRS 17 Key Metrics tell us?
A Q3 Perspective & Analysis by Jeff Stewart

The adoption of IFRS 17 (replacing IFRS 4) represents one of the most significant changes in insurance accounting in decades.

For Property & Casualty (P&C) insurers, the impact is substantial, despite the short-term nature of their contracts. IFRS 17 changes how revenue and profit are recognized, requiring insurers to shift away from traditional premium-based reporting toward a service-based revenue model. This shift affects key performance indicators and demands more granular data and advanced actuarial modelling. While ratio analysis continues to be critical in assessing industry performance, IFRS 17 demands a recalibration of interpretation, as legacy measures such as Loss Ratio, Expense Ratio, and Combined Ratio are reshaped by the introduction of insurance revenue in place of earned premiums. Additionally, IFRS 17 resets the baseline for performance metrics, making long-term trending between current results and those used under the legacy standard largely obsolete.

Working closely with the Audit and Actuarial communities, as well as Canada's major supervisory authorities, the Insurance Bureau of Canada led a process to establish a common set of performance metrics under the new IFRS 17 standard. We are now using these new ratios to evaluate industry and Member Insurer performance.

For each of the Key Ratios below, a box plot illustrates where most values fall within the broader industry distribution. The box represents the middle 50% of the data, bounded by the first quartile (lowest percentage value indicated in the charts below) and third quartile (highest value indicated), with a line inside the box indicating the median. The dots extend out above and below the box while any points beyond the small horizontal line are considered statistical outliers.

Key Ratios Analysis for Q3:

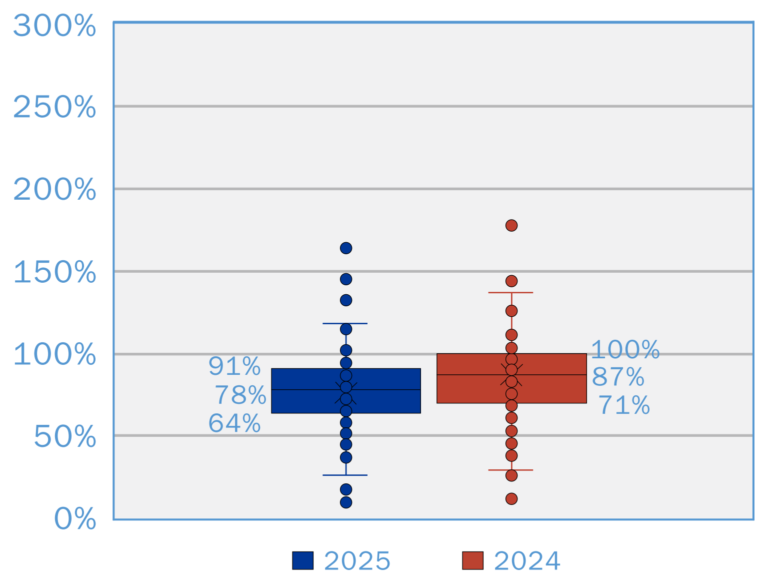
Gross Insurance Service Ratio

Insurance Service Expenses ÷ Insurance Revenue

This Ratio quantifies the relationship between claim costs and expenses directly associated with insurance contracts, relative to insurance revenue. A lower value indicates better insurance profitability performance, whereas a result exceeding 100% signifies an insurance service loss.

- Q3'25 Industry Avg: 80.4%
- Q3'24 Industry Avg: 88.7%

Gross Insurance Service Ratio

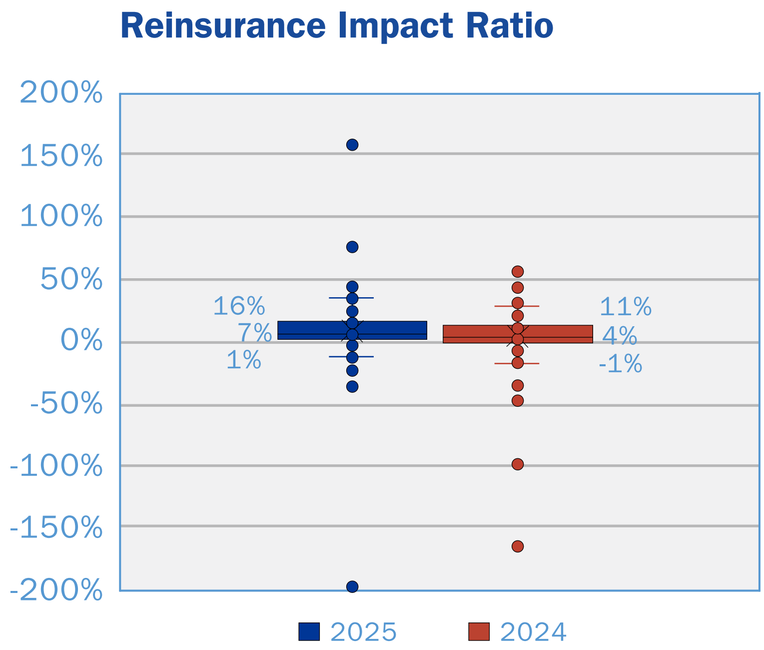


Source: MSA

Observations: Industry performance in Q3’25 reflects a median improvement of 9% year-over-year, surpassing the annualized industry average gain of 8.3 points. This was driven by favourable underwriting trends, including increased revenue and reduced claims, likely due to a lower impact from catastrophe losses. Entity distribution narrowed, indicating less variability across participants, as shown by the upper bound shifting to 91% from 100%, and the lower bound improving to 64% from 71%.

Reinsurance Impact Ratio

$$- \text{Net Expenses from Reinsurane Contracts Held} \div \text{Insurance Revenue}$$



Source: MSA

This Ratio indicates the net impact of reinsurance transactions (premiums paid and recoveries received) on insurance revenue. A value above zero means that reinsurance premiums/costs outweigh claim recoveries.

- Q3’25 Industry Avg: 7.1%
- Q3’24 Industry Avg: 1.6%

Observations: Q3’25 results show a median reinsurance impact ratio of 7% versus 4% in 2024, presenting a three-percentage-point increase, coming in below the industry annual average change of 5.5%. This shift likely reflects consistent ceding of risk amid softer reinsurance market conditions, and reduced reinsurance recoveries following the elevated catastrophe activity in 2024. The distribution widened at the upper bound, increasing to 16% from 11%, while the lower bound shifted to 1% from -1%. This indicates a reduced reliance on reinsurance in 2025 to stabilize results, driven by lower current-year catastrophe losses. For context, 27% of insurers as of Q3‘24 had year-to-date reinsurance recoveries exceeding premiums ceded, compared to just over 10% in 2025.

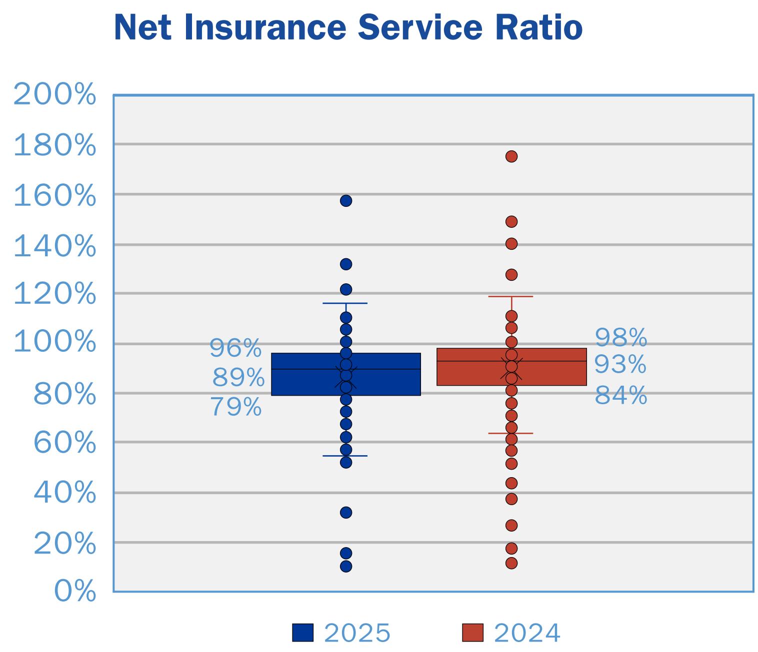
Net Insurance Service Ratio (NISR)

$$\left(\text{Insurance Service Expenses} - \text{Net Expenses from Reinsurance Contracts Held}\right) \div \text{Insurance Revenue}$$

This Ratio combines the gross insurance service ratio and reinsurance impact ratio to provide a measure of insurance profitability, inclusive of reinsurance. A value exceeding 100% implies that claims, expenses and net reinsurance results outweigh revenues. The result also indicates that the industry is depleting its capital base.

- Q3’25 Industry Avg: 87.5%
- Q3’24 Industry Avg: 90.3%

Observations: The Q3’25 NISR reflects improved performance, with a median of 89% compared to 93% in 2024, roughly in line with the 2.8% decrease in industry averages year-over-year. This improvement is driven by stronger gross insurance service results, partially offset by increased net reinsurance expenses (less claims recoverable to offset premiums ceded). The distribution widened slightly, with the upper bound easing to 96% from 98% and the lower bound improving to 79% from 84%, indicating greater variability across entities, despite an overall trend toward more consistent profitability.



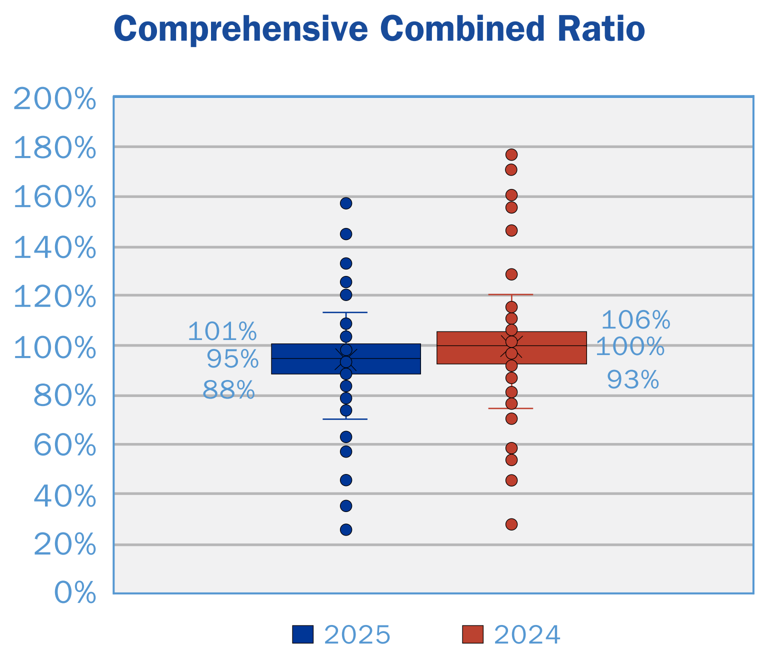
Source: MSA

Comprehensive Combined Ratio (CCR)

$$\left(\text{Insurance Service Expenses} - \text{Net Expenses from Reinsurance Contracts Held} + \text{General and Operating Expenses} - \text{Net Finance Expenses from Insurance Contracts} - \text{Net Finance Expenses from Reinsurance Contracts} \right) \div \text{Insurance Revenue}$$

This Ratio measures total underwriting performance, by expressing all related insurance service expenses, including claims, acquisition, and administrative costs as a percentage of insurance revenue. A ratio above 100% indicates an underwriting loss and signals that the industry is eroding its capital base, while a lower ratio reflects a more profitable and efficient insurance operation.

- Q3’25 Industry Avg: 94.4%
- Q3’24 Industry Avg: 99%



Source: MSA

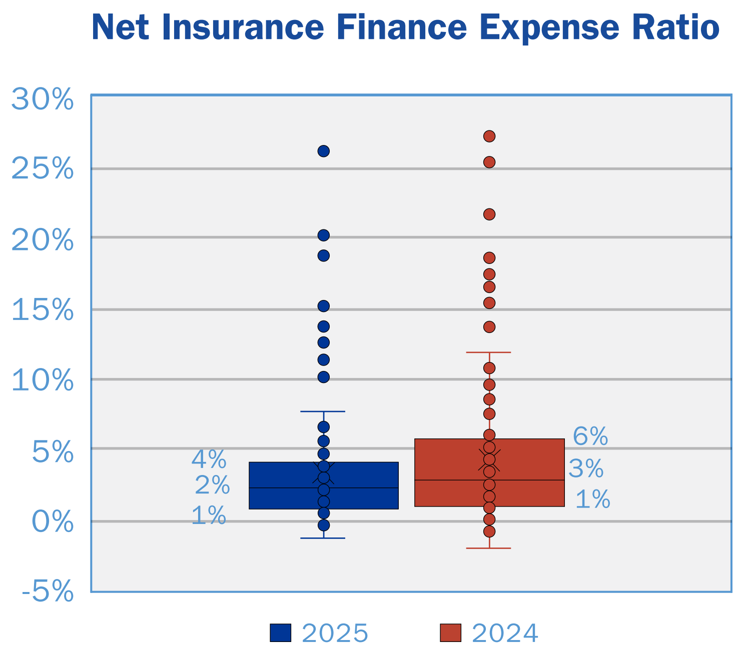
Observations: The Q3’25 CCR underscores a much-needed improvement in overall performance efficiency, with a mean and median favourable decrease of roughly five percentage points in comparison to Q3’24. The downward shift of the distribution, with the upper bound decreasing from 106% to 101% and the median improving from 100% to 95%, indicates positive progress for the industry overall. However, the most concerning aspect is that, despite improvement from 50% of insurers reporting underwriting losses in Q3’24 to only 25% in Q3’25, this remains a significant proportion of the industry and an uncomfortably high proportion that warrants continued close monitoring.

Net Insurance Finance Expense Ratio

$$-\left(\text{Net Finance Expenses from Insurance Contracts} + \text{Net Finance Expenses from Reinsurance Contracts}\right) \div \text{Insurance Revenue}$$

This ratio reflects the impact of financing expense activities (interest rate exposure and discounting of insurance liabilities) relative to insurance revenues. A higher ratio indicates that the finance expenses are negatively affecting profitability, often influenced by exposure to interest rates and market volatility.

- Q3'25 Industry Avg: 3.4%
- Q3'24 Industry Avg: 4.6%



Source: MSA

Observations: The Q3'25 results reflect improved capital efficiency, with a median ratio of 2% versus 3% in Q3'24, in line with the roughly 1.2% decrease in the industry average over the same period. This improvement is supported by a more stable interest rate environment, as well as reduced exposure to rate fluctuations and market volatility. The distribution narrowed at the upper bound to 4% from 6%, while the lower bound remained at 1%, indicating reduced variability and greater consistency in managing financial expenses across the industry.

PACICC will continue to monitor the results of Member Insurers to ensure that the Corporation is prepared to fulfil its mission to protect policyholders from undue loss in the unlikely event that their home, auto or business insurer fails.

Emerging Issues

Assuris is Modernizing its Funding Tools by Marie-Claire Albanese

Simplifying and Recalibrating Assuris' Funding Tools Enhances Policyholder Protection

Through proposed amendments set to be incorporated into its By-Law in 2026, Assuris is looking to modernize its specific and loan assessment funding tools. These are tools that Assuris can use to fund a transfer of policies from an insolvent life and health insurer to a solvent one, ensuring that Canadian policyholders are protected in the process.

As the lead authority in resolution of Canadian life and health insurers and the resolution expert, Assuris is constantly adapting and future-proofing our funding system to be prepared to resolve any life and health insurer failure. Assuris also regularly assesses the adequacy of our resolution funding, compares it to international best practices, and makes recommendations that make sense for the Canadian industry.

Simplifying and recalibrating the specific and loan assessment funding tools will provide timely and adequate access to the funding needed to resolve a life and health insurer failure and enhance the protection of policyholders. Updating the funding tools will strengthen confidence in Assuris' private funding model – with no reliance on taxpayer money, while providing appropriate guardrails to prevent the risk of undue contagion for the industry.

Simplifying the Specific and Loan Assessment Funding Tools

The specific and loan assessments are Assuris' main funding tools to address most failures. They represent the industry funding Assuris can access to meet the liquidity needs in a failure. Assuris, the life and health insurance industry, Regulators and Government recognize the importance of timely access to funding in preventing the erosion of consumer confidence in Canadian financial services, particularly in the early days of an insurer insolvency.

Rather than having to combine the specific and loan assessments to access the funding needed in a failure as is the case currently, Assuris is proposing to increase the maximum specific assessment for it alone to meet permanent funding needs. Assuris would deploy the loan assessment for temporary funding needs only, and have the flexibility to assess only a subset of member companies while retaining the obligation to assess all member companies if that funding need became permanent. While not altering the current financial impacts on the industry, these simplification changes will make the specific and loan assessments more effective, practical and straightforward to administer.

Recalibrating the Specific and Loan Assessment Funding Tools

The life and health insurance industry has enjoyed significant growth over the past few years. To keep pace with the growth in benefits and coverage to Canadians, Assuris has increased its levels of protection with the support of the industry and Regulators in 2023.

To ensure Assuris' funding tools evolve alongside potential funding needs associated with Canadians' higher levels of benefits and coverage, Assuris is working with the industry to recalibrate its funding tools by increasing the funding Assuris can access to meet liquidity needs in a failure.

Industry guardrails will ensure that recalibrating specific and loan assessments does not undermine the financial health of the industry. Although comparable to the current guardrails, they will shift from an annual maximum to a timeframe-based limit, which will confer Assuris greater flexibility in addressing funding needs, safeguard the resiliency of the industry and preserve consumer confidence in Canadian financial services.

Assuris is advancing its industry and regulatory consultation to ensure a successful implementation of the proposed By-law amendments in 2026.

About Assuris

Founded in 1990, Assuris is the lead authority in the resolution of Canadian life and health insurers and the guarantee association that protects Canadian policyholders if their life and health insurance company fails. It is independent in the public interest, enforces strict conflict of interest rules for its employees and directors, and works in partnership with prudential supervisors in the early stages of intervention. In addition, Assuris plays a significant role in the court-based insolvency process by working closely with liquidators, officers of the court and international resolution counterparts.

Assuris is designated by the federal Minister of Finance under the *Insurance Companies Act* of Canada, recognized by the Autorité des marchés financiers (AMF) as a compensation body under the *Insurers Act* (Québec) and is funded by the life and health insurance industry to safeguard the financial well-being of Canadians.

Assuris has Participation Agreements with all jurisdictions in Canada (federal, provincial and territorial). Every life and health insurance company licensed to sell insurance in Canada is required by all regulators to become a member of Assuris and maintain Assuris membership in good standing as a condition of their licensing.

Marie-Claire Albanese, General Counsel & Corporate Secretary, Assuris

PACICC Priority Issues: Updates

Managing Systemic Risk

"Mitigating Systemic Risk" continues to be a Permanent Priority Issue for PACICC, until such time as some form of federal liquidity backstop mechanism is finally put in place. In its November 4 Budget, Canada's new government signalled its intent to consult with Canada's P&C insurance industry on ways to ensure the stability of Canada's financial services sector and broader economy in the face of unexpected external threats, such as earthquake. This is welcome news, providing hope that action will finally be taken to address Canada's earthquake exposure. However, we note that this is the fourth time since 2017 that some form of commitment on this issue has been included in a federal Budget. We continue to work with Finance Canada, OSFI, and other key stakeholders to finally move this issue forward to resolution.

As we await action from government, PACICC is focused on other "incremental" initiatives to help mitigate systemic risk, including:

- **New desktop exercise –** Building on the success of last year's partnership with the British Columbia Financial Services Authority (BCFSA) on an insolvency simulation desktop exercise, we are teaming with OSFI and a host of senior federal and provincial decision-makers on another desktop exercise (December 16) that will again seek to test the limits of policyholder protection following a major Nat-Cat event, and help to illustrate the need for a more effective public-private partnership to manage this peak peril
- **Compensation association designation –** Finance Canada is reviewing 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
- **Access to loss exposure data –** At its April 2025 meeting, PACICC's Board approved a By-Law amendment (subsequently approved by regulators) that requires Members to provide PACICC with access to loss exposure data, for solvency monitoring purposes. This commercially sensitive information has now begun to flow into PACICC, and will inform and strengthen PACICC's earthquake risk modelling. The information is protected by a comprehensive Data Governance Policy to ensure safe acquisition, processing, storage and handling
- **Proposed MCT/BAAT Amendment –** PACICC has 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. Dialogue on this and other capital-related initiatives to mitigate systemic risk is now ongoing.

Work is continuing into the new year in other areas to address systemic risk, including:

- **An Updated Risk Appetite Limit –** The PACICC/BCFSA desktop exercise highlighted the fact 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, based on Member Insurers' 2024 year-end results. Given this finding and potential changes in our liquidity capacity, it is time for us to revisit PACICC's defined Risk Appetite Limit
- **Multiple Perils –** We are liaising with regulatory partners and the Canadian Institute of Actuaries on the need to enhance stress testing around sequential events, such as aftershocks
- **Update our Systemic Risk Model –** PACICC is working on a revised "tipping point" paper that will reflect learnings from the newly accessible reinsurance information, as well as updated industry capital levels.

None of the above initiatives will properly position PACICC to respond to an earthquake with insured losses above a "tipping point" threshold. Despite all of the above efforts, a liquidity backstop is still needed in order to effectively protect Canadians.

Enhancing Resolution Capabilities

The International Association of Insurance Supervisors (IAIS) has defined "resolution" to mean the actions taken by a resolution authority toward an insurer that is no longer viable – actions that are clearly within PACICC's mandate and mission. The Financial Stability Board (FSB) has detailed the key attributes of an "insurance resolution regime," including a resolution authority. Given the absence of a national Authority, these responsibilities are shared in Canada among regulators, PACICC and its sister organization in the Life industry, Assuris. OSFI is now thinking through how best to meet FSB's resolution expectations within the context of Canada's federated model, and continues to engage PACICC in the exercise.

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." This would meaningfully enhance PACICC's response capabilities in a range of distress/crisis scenarios. Following a comprehensive application process that began in 2024, PACICC received signed Letters Patent for its Bridge Insurer (PACICC-SIMA General Insurance Company, PGIC) this summer (July 21).

PGIC's initial Board meeting took place this Fall (November 6). At this meeting, the new PGIC Board (comprising all Non-Industry Directors of PACICC) authorized the issuance of shares to PACICC in exchange for a $10M promissory note (secured by our $64M Compensation Fund and serving as the Bridge Insurer's capital base). PGIC then finalized its application to OSFI for the issuance of shares in consideration for property (given that PACICC will not be paying cash for the shares). This was approved by OSFI. On December 10, PACICC secured formal OSFI approval for PGIC to commence and carry on business, effective January 1, 2026. PACICC is now seeking to secure licences for PGIC to operate in all Canadian provinces and territories. This will carry well into 2026. PGIC will remain a dormant shell entity until called upon to assist with the resolution of a PACICC Member insurer.

PACICC is 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 2026 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 $64.2 million (book value, November 30, 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. In 2026, we will conduct a review of the adequacy of our short-term liquidity in the context of our new insights into industry loss exposure and reinsurance data.

PACICC's Memorandum of Operation (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, based on Member Insurers' 2024 year-end results). In late 2024 and early 2025, we secured high investment-grade credit ratings for PACICC from two major rating agencies. Maintaining these ratings (subject to annual review) is inexpensive and consistent with our "low-cost optionality" strategy. This will enable us to secure larger, longer-term liquidity solutions for the industry – empowering PACICC to respond to larger insolvency situations, without contributing to systemic stress in a period of crisis. We have now successfully worked through the first such annual review and both ratings are unchanged.

PACICC is reviewing with its financial advisors the steps required to operationalize any future debt issuance (e.g. accounting treatment, debt structure, etc.).

Strategic Planning – 2027-2029

PACICC's Board will be meeting next Summer (June 23) to establish new three-year Plan Priorities for the Corporation (2027-2029). PACICC Staff will prepare an industry overview and situational analysis, and introduce preliminary strategic options for the Board to consider at its regularly scheduled Spring meeting (April 30). The Strategic Planning Meeting will provide an opportunity for in-depth discussion on a range of issues, including: governance review; future approaches to Coverage & Benefits reviews; focus on the PACICC brand; and Alternative Assessment frameworks. Members will be updated on developments in PACICC's quarterly newsletter (*Solvency Matters*).

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.

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.

2026 Emerging Risks Webinar Dates:

Thursday, February 26
1:00-2:30 p.m. EST

Thursday, May 21
1:00-2:30 p.m. EDT

Thursday, October 22
1:00-2:30 p.m. EDT

2026 Forum Meeting Dates

Thursday, April 16
1:00-4:00 p.m. EDT

Wednesday, September 23
1:00-4:00 p.m. EDT

Thursday, November 26
1:00-4:00 p.m. EST

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.

Denika Hall
Editor and graphic design

PACICC

SOLVENCY MATTERS
80 Richmond Street West,Suite 607
Toronto, Ontario, Canada M5H 2A4

Website:
www.pacicc.ca
Phone: 416-364-8677
To unsubscribe or for other information
email: dhall@pacicc.ca