

# SOLVENCY MATTERS

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



Insolvency protection for home, automobile and business insurance customers

Issue 33 - April 2026

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# From the Desk of the President

## And Now for the Hard Part - by Alister Campbell



Our Corporation first published an analysis of the risks associated with a major systemic event, which might overwhelm the Canadian P&C industry and its self-funded insurance guarantee mechanism, back in 2013. It has been a long and sometimes frustratingly slow slog since then, to achieve both broad industry consensus on the need for some form of liquidity backstop mechanism, and tangible action from the federal government. A Budget commitment in 2017 led nowhere. And follow-on commitments in 2021 and 2023 yielded similar disappointing results. This is why the

commitment made in last Fall's first Budget under new Prime Minister Carney was met by some (perhaps including us) with initial skepticism. But in recent weeks – suddenly – things have begun to move. And fast!

Just a few weeks after the Federal Budget commitment, in mid-December the OSFI Superintendent was kind enough to host PACICC and the IBC in his offices in Ottawa, where we engaged an important group of significant federal and provincial stakeholders in a desktop simulation, demonstrating the scope and scale of the earthquakes Canada is exposed to in British Columbia and Quebec. The simulation exercise provided modeled estimates for two scientifically-credible events, and the resulting total ground-up losses and insured losses, as well as an evaluation (based on longitude and latitude) of the likely damage to strategic infrastructure assets (airports, ports, power plants, etc.). We also provided participants with third-party modeling to quantify the urgent fiscal needs – for income and shelter subsidies and emergency management – as well as the expected adverse impacts on overall GDP and government revenues.

Finally, we walked participants through the results of the PACICC Systemic Risk Model and showed that events such as these – well past our “Tipping Point” – would cause many PACICC Member Insurers to fail, and the required PACICC General Assessments would both fuel systemic contagion...and prove wholly inadequate to fund the urgent cashflow needs of claimants. The discussions that followed took place under non-disclosure agreements, and so I cannot share anything about the high-value exchange that then took place. But, it does seem likely that the success of the desktop simulation exercise further contributed to the momentum which has now prompted a formal Finance Canada consultation regarding the prospect of an “Earthquake Insurance Cost-Sharing Arrangement.”

The consultation exercise was launched on February 24. Our excitement regarding this launch was quickly tempered by stress around the deadline that Ottawa has imposed – April 10. We have worked for 13 years, tirelessly advocating for an “earthquake backstop.” But now we were being asked to help flesh out exactly what that backstop would look like. And the deadline was just seven weeks away!

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As I write this note, we are still developing our full, formal response to the Finance Canada consultation. But the broad strokes are already clear and I am comfortable sharing – at a high level – what we are likely proposing to tell Ottawa.

1. A cost-sharing arrangement – modeled on the US terrorism backstop (*Terrorism Risk Insurance Act*, known as “TRIA”) and structured with a clear “trigger” or “threshold,” an appropriate “deductible” or “net retention” for the industry and an upper bound on total government obligation, with some form of “recoupment”/re-payment model assessed “ex post” – will work. The government is on the right track!
2. Any solution proposed must cover both federally- and provincially-supervised insurers – the cost-sharing arrangement needs to be a national mechanism, not just a federal one – in order to fully mitigate systemic risk (more than 60% of QC Personal Property insurance and 20% of BC Personal Property insurance is currently underwritten by provincial insurers)
3. Careful modeling and analysis will be required to set “trigger/thresholds” and the industry “deductible” in the “TRIA-like” structure. To the extent that any successful design will need to allow insurers “to fail” (as antidote for “moral hazard”), there will also need to be accurate modeling to estimate how much failure the system can “afford.” It seems very possible that the PACICC Systemic Risk Model (encompassing both federal and provincial insurers) will prove to be invaluable in supporting this modeling work
4. A central element of the proposed federal cost-sharing arrangement is likely to be a “recoupment” mechanism, enabling the industry to repay funds received from the federal government over a period of time, after the major earthquake event. PACICC’s Assessment tool(s) could prove to be a useful way of collecting such funds, as authority to levy Assessments on federally- and provincially-regulated insurers is already legally embedded in our operating model
5. The opportunities to engage PACICC capabilities to help establish some of the key design issues of the proposed cost-sharing arrangement further amplify the case that we have been making for the last several years – that it is past time for Finance Canada to formally designate PACICC as a “Compensation Association” under the federal *Insurance Companies Act*.

We anticipate the next few weeks and months to be quite hectic, as we work with all industry and federal/provincial stakeholders to get to the finish line on design of an effective liquidity backstop mechanism. And it is realistic to assume there will be at least a few more bends in the road before we get there. But after 13 years of effort, it is clear that we have never been closer to seeing – and perhaps even being part of – a solution to address this glaring gap in the public infrastructure of Canada. Updates to follow!

# Canada's P&C Industry in 2025: A Profitable Year Amid Calm Cats, Strong Commercial Lines, and Sluggish Personal Auto

by Jeff Stewart

Canada's property and casualty (P&C) insurers turned in a standout performance in 2025, delivering robust profitability and a Return on Equity (ROE) of 17.1%. The result marks a notable step up from the 14.9% posted in 2024 and sits roughly 700 basis points above the industry's 50-year long-run average. The results for 2025 mark the 6th consecutive year with ROEs above the long-run average.

The industry posted strong underwriting performance in 2025, as Insurance Service Expenses declined by 4.1% and Insurance Revenues climbed 6.5%, together driving a \$3.45 billion increase in the Net Insurance Services Result – up a substantial 29.9% year-over-year. Insurers benefited from a comparatively mild Canadian catastrophe season, which led to a significant \$7 billion drop in Cat losses – falling from more than \$9.4 billion in 2024 to just above \$2.4 billion in 2025. However, the industry did experience a sharp rise in Net Expenses from Reinsurance Contracts Held – which increased 593% in 2025, driving an unfavourable \$6.9 billion swing between reinsurance premiums paid and claim recoveries – effectively mirroring the year-over-year catastrophe loss results.

Underwriting performance in Canada's Private Passenger Auto insurance market remained notably weak in 2025. As a key measure of underwriting profitability, the Net Comprehensive Combined Ratio (NCCR) serves as a critical indicator of performance. The ratio incorporates Insurance Service Expenses, Reinsurance Costs, General and Operating Expenses, as well as Net Insurance and Reinsurance Finance Expenses relative to Net Insurance Revenue. A NCCR above 100% signals an underwriting loss and indicates that this line of business is eroding the industry's capital base. In 2025, Private Passenger Auto NCCRs exceeded this threshold in every province and territory except Quebec, Ontario and the Northwest Territories. While the industry-wide result sits at 100.7% and has improved modestly by 2.8% compared to last year, these outcomes nonetheless underscore the persistence of an unsustainable trend.

In 2025, while the overall Cat season was relatively calm, Canada confronted its second-worst fire season in the nation's history. This weighed heavily on certain provinces' Personal Property insurance results, particularly across Newfoundland and Labrador, Manitoba and Saskatchewan. Each of these provinces reported NCCRs above 100%, with underwriting performance deteriorating most sharply in Newfoundland and Labrador and Saskatchewan, where ratios climbed beyond 120%. Beyond the wildfire-impacted regions, PEI and Nunavut also recorded unfavourable NCCRs for the year.

Commercial Property and Liability insurance remained the most profitable segments for Canada's P&C insurers in 2025, with highly positive NCCRs of 89.3% and 87.9%, respectively. This sustained profitability has continued to fuel speculation of a softening market, as ample capacity and intensifying competition place downward pressure on rates. The only localized exceptions of NCCRs over 100% emerged in Newfoundland and Labrador in Commercial Property, and the Yukon in both Commercial Property and Commercial Liability. These isolated areas of underperformance stand out against an otherwise broadly favourable Commercial underwriting environment.

Looking across the combined results by province, Newfoundland and Labrador stood out as the sole jurisdiction reporting an unfavourable result in 2025, with a NCCR of 106.8%. By contrast, Quebec, British Columbia, the Northwest Territories and Nunavut all delivered highly favourable outcomes, each posting NCCRs below 90%.

While overall industry performance reflected above average results, underwriting profitability across PACICC's 160 Member Insurers continues to vary. In 2025, approximately 9% of insurers reported negative Net Insurance Service Results. No single trend, however, appears to explain these outcomes. Instead, weaker performance was driven by insurer-specific circumstances, often tied to unfavourable underwriting in select product lines or a high concentration of exposure within particular provinces. PACICC will continue to monitor these insurers closely as results evolve in 2026.

## 2025 Q4 – Summary of Financial Results

All values are from MSA, as of March 25, 2026

Values exclude mortgage insurers and are in \$millions (CAD), except where noted.

	2025 Full-Year	2024 Full-Year	Percentage Change
Total Insurance Revenue	109,773	103,073	6.5%
Insurance Services Expenses	-86,672	-90,358	-4.1%
Net Expenses from Reinsurance Contracts Held	-8,089	-1,167	592.9%
<b>INSURANCE SERVICES RESULT</b>	<b>15,012</b>	<b>11,547</b>	<b>29.9%</b>
Investment Return	7,747	8,205	-5.6%
Net Finance Income/Expenses	-3,033	-4,138	-26.7%
<b>NET INVESTMENT RESULT</b>	<b>4,714</b>	<b>4,067</b>	<b>15.9%</b>
General and Operating Expenses	-4,077	-4,230	-3.6%
Other Income and Expenses	805	1,504	-46.5%
<b>NET INCOME</b>	<b>13,117</b>	<b>10,741</b>	<b>22.1%</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>13,734</b>	<b>11,873</b>	<b>15.7%</b>

## Select Solvency Indicator Ratios

	2025 Full-Year	2024 Full-Year
Net Insurance Service Ratio	86.3%	88.8%
Return on Investment (ROI)	4.6%	5.1%
Return on Equity (ROE)	17.1%	14.9%
MCT Ratio (Capital Available / Capital Required)	262.1	255.0
BAAT Ratio ( <i>Applicable to Branches</i> ) (Net Assets Available / Capital Required)	368.7	350.2

Jeff Stewart, Vice President Finance, PACICC

## PACICC’s Best Estimate Methodology - by Grant Kelly

PACICC has been working to update its Systemic Risk Model. A key output of that model is a “Tipping Point” threshold – an estimate of the size of an insured loss event that the Canadian P&C industry can withstand before systemic risk overwhelms available capital, reinsurance and our industry-funded guarantee mechanism. The update project has taken on new urgency, given the welcome news that Finance Canada is now fully engaged with the industry in developing options for some form of liquidity backstop mechanism for precisely this type of event. Since the last update, PACICC has taken a series of incremental steps to help to mitigate systemic risk in the event of a major earthquake in BC or Quebec (the most likely cause of such a massive shock to the system). The purpose of this article is to highlight several of the key assumptions in our Model, and how they may be materially different than in our previous iterations of the Model.<sup>1</sup>

Since the last update, with the unanimous approval of the PACICC Board and all 13 provinces and territories, we have made a significant change to the PACICC Memorandum of Operation (MoO). Before 2024, the MoO required that, should a Member Insurer be closed by a Regulator, the PACICC Board of Directors must estimate an amount which reflects the “maximum exposure” of the Corporation, anticipated by the Board. This approach was acceptable if/when PACICC was expected primarily to deal with the failure of smaller companies. However, by definition, an estimate of “maximum exposure” requires the adoption of worst-case assumptions and a contingency buffer on top of that. In a period of systemic stress, using such a methodology to estimate required Assessments could itself magnify systemic stress. Since 2024, the amended MoO requires the PACICC Board to make the “best estimate of the exposure of the Corporation” in respect of the insolvency of any Member.

PACICC staff has worked with PACICC’s Actuarial Advisory Committee to develop new assumptions to incorporate in the calculation of the “best estimate” of any required Assessment. In the soon-to-be-released update to our Systemic Risk Model, PACICC’s modeled “best estimate” of any required Assessment(s) will be calculated to be the sum of the following elements:

### 1. Rebate for Premiums paid in Advance

PACICC refunds any premiums paid in advance by policyholders at the failed insurer – up to 70% of \$2,500 (or \$1,750). PACICC’s experience in past insolvencies shows that providing such premium refunds can quickly and successfully remove most policyholders from the lengthy legal process of liquidating an insurer under the *Winding-up and Restructuring Act (WURA)*. Historically, our assumption of the amount required to cover these costs was as much as 30% of the estimated “maximum exposure.” With the increased adoption of monthly payment plans by retail insurance consumers, it became increasingly clear that we needed to revisit this element of our Assessment estimate.

In 2025, PACICC surveyed Member Insurers to determine the level of protection provided by the current unearned premium refund limit, and to ascertain just how significant this element of our policyholder protection package still was. We learned that the exact amount that would

<sup>1</sup> The 2026 update will be the fourth edition of PACICC’s “Tipping Point” estimate. Each update has included a listing of the key model assumptions. The full list of assumptions used in the 2021 paper may be found here (pages 9 to 14): [https://www.pacicc.ca/wp-content/uploads/WIF\\_The-Tipping-Point-2021-EN-2.pdf](https://www.pacicc.ca/wp-content/uploads/WIF_The-Tipping-Point-2021-EN-2.pdf).

be rebated to policyholders is not disclosed on the new IFRS 17 financial statements. In fact, some Member Insurers reported that they found significant difficulties in providing the required data. That being said, our Survey found that Liability for Remaining Coverage (LRC) was in fact a reasonable estimate for Member Insurers that focus on personal lines. However, LRC likely overstates the refund required for any failed Member Insurers that primarily provide Commercial insurance.

**For the 2026 Systemic Risk Model update, PACICC's best estimate for the rebate of premiums paid in advance will be:**

**Liability for Remaining Coverage (page 20.14, column (02), row 629) + Loss Component (page 20.14, column (06), row 629). However, our estimate will be reduced to 25% of LRC if Commercial Direct Premiums Written are 80% of the insurer's total business. If LRC is negative, the rebate is zero.**

Findings from the Survey, as well as this new Commercial insurance assumption, result in a significantly decreased required Assessment to cover the funding of premiums paid in advance. In turn, this results in a net increase to the "Tipping Point" in a systemic shock scenario.

## **2. Non-Earthquake Claims**

When a Member Insurer fails, it is placed into the Court for liquidation under *WURA*. *WURA* does not distinguish between policyholders that report earthquake claims and those that report any other covered claim. PACICC is obligated to protect all policyholders equally.

PACICC assumes that the reserves on the balance sheet of failed insurers reasonably reflect the expected cost to settle these claims (a reasonable assumption given that many otherwise solvent and well-managed Member Insurers with properly estimated liabilities and reserves could still be overwhelmed by a major earthquake event). However, PACICC does assume an added 10% surcharge, to reflect increased claims settlement costs post-catastrophic event, as the Court-appointed Liquidator seeks to move as quickly as possible. This 10% surcharge also reflects an element of post-catastrophic event claims inflation (although only time will tell if the inflationary costs prove to be in excess of this estimate).

PACICC's Systemic Risk Model also assumes that 100% of all natural-catastrophe reinsurance will flow into Canada in line with signed treaties. Therefore, the amount of any required Assessment for non-catastrophic claims is reduced to reflect 100% of the registered reinsurance assets on the balance sheets of the failed insurer. However, for conservatism, our Model assumes that only 80% of unregistered reinsurance assets will actually flow into the estate of the failed insurer.

In the 2026 Systemic Risk Model update, the amount needed for non-earthquake claims will be calculated as follows:

[Liabilities for incurred claims not under PPA (page 20.14, column (10), row 629) + Expected Present Value of Future Cash Flows (page 20.14, column (12), row 629) + Risk Adjustment (page 20.14, column (16), row 629)] \* 110%

LESS: {100% of Registered Reinsurance Assets (page 70.50, column (79), row 29) + 80% of Unregistered Reinsurance Assets (page 70.60, column (79), row 29)}

### 3. Earthquake Claims

In PACICC's Model, there are multiple layers of resources to pay earthquake claims. First, a small number of Member Insurers have set aside dedicated earthquake reserves. They will use these reserves first. Next, many Members report in their regulatory filings that they plan to use non-Cat reinsurance to pay a significant portion of their probable maximum loss (PML). PACICC assumes that this non-Cat reinsurance will pay the portion reported in the regulatory guideline for losses up to 15% higher than their expected PML. Finally, insurers purchase large amounts of catastrophic reinsurance protection. We assume that this reinsurance will respond, based on the assumptions described above. And finally, Member Insurers have their own capital and access to capital of the financial groups or multinational corporations of which they are a member. However, PACICC's best estimate must reflect losses from earthquake claims that exceed our estimate of these financial resources.

### 4. Administrative Expenses

PACICC would also assess Member Insurers for any administrative and legal costs required to settle the estate(s) of the failed insurer(s). In past insolvencies, these costs have been high. Our Model now assumes a flat 15% surcharge on the PACICC best estimate to cover these expenses. This is in line with PACICC's historical experience in managing 13 previous failures under *WURA*.

### Conclusion

The change made, to allow for use of a "best estimate of the exposure of the Corporation" in respect of the insolvency of a particular Member, has required a careful review of our key assumptions. Based on the work to date – and all other things being equal – this important change will result in a material reduction in the estimated Assessment required by PACICC when a Member Insurer fails. As intended, this change also raises our "Tipping Point" estimate and contributes to a reduction in systemic risk for our industry...and for Canada. It remains a fact, however, that a "Tipping Point" does still exist. These changes do not obviate the need for some form of federal liquidity backstop mechanism. This remains an urgent priority.

# Emerging Issues

## ***The U.S. P&C Guaranty Association Perspective: Supervision, Rehabilitation, and Liquidation*** - by Ashley Rosenberger

The U.S. insurance insolvency framework is a state-based system governed by state receivership statutes. This framework stems from Congress's passage of the *McCarran-Ferguson Act* in 1945, which effectively delegates authority to regulate insurance to the states (as opposed to the U.S. federal government). Each state has its own receivership laws, and while model laws developed by the National Association of Insurance Commissioners (NAIC)<sup>1</sup> provide consistency, variations remain. Each state government has an agency (generally a department of insurance) charged with regulating the insurance industry. The head insurance regulator (often referred to as the commissioner) in the state where an insurance company is domiciled has primary responsibility for monitoring the insurer's solvency and taking action in the event of an insolvency.

When regulators determine that an insurer may be troubled, they are empowered to seek the form of receivership appropriate to the circumstances. Most states have enacted statutes governing the receivership of insurance companies that are patterned, at least in part, after one of three NAIC model acts adopted over the years: the *Uniform Insurers Liquidation Act (Uniform Act)*; the *Insurers Rehabilitation and Liquidation Model Act (IRLMA)*; and the *NAIC Insurer Receivership Model Act (NAIC Model No. 555, also known as IRMA)*.<sup>2</sup>

These proceedings are commonly described as:

- Administrative Supervision
- Rehabilitation
- Liquidation

While these proceedings can occur sequentially, they may begin at whichever stage is most appropriate to the insurer's financial condition. They are typically conducted in the state where the insurer is incorporated, known as the domiciliary state, and are governed by that state's statutes.<sup>3</sup> When an insurer operates in multiple states, the domestic state regulator co-ordinates with regulators and other appropriate parties in the other states where the insurer is licensed to ensure the protection of policyholders and claimants.

Throughout the receivership framework, regulators, receivers, and guaranty associations perform distinct but interconnected roles. Regulators oversee troubled insurers under their statutory authority. In some cases, supervision may occur without court involvement, allowing for confidential regulatory oversight. If the situation deteriorates or cannot be stabilized, regulators may seek rehabilitation or liquidation, which require approval from and are subject to the oversight of a domiciliary state court in a public proceeding.

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<sup>1</sup> The NAIC is an association of the chief insurance regulators from the fifty states, the District of Columbia and five U.S. territories. It serves as a standard setting and regulatory support organization.

<sup>2</sup> National Association of Insurance Commissioners, *Receivers' Handbook for Insurance Company Insolvencies* (NAIC), Introductory Overview.

<sup>3</sup> NAIC Receivers' Handbook, Ch. 1.

When a public proceeding begins, the court typically appoints the insurance commissioner as the statutory receiver (i.e., rehabilitator or liquidator).<sup>4</sup> The receiver may then appoint a special deputy receiver (SDR) to manage the day-to-day administration of the estate or insolvent company. Guaranty associations formally assume their statutory responsibilities upon a triggering insolvency, although they may co-ordinate with regulators and receivers at an earlier stage, as described below.

### ***Administrative Supervision: Early Oversight***

Most states authorize the commissioner to place an insurer under administrative supervision when it is operating in a way that poses a hazard (often described in statute as a ‘hazardous financial condition’) to policyholders, creditors, or the public.<sup>5</sup> During supervision, company management typically remains in place, but operations become subject to regulatory oversight and corrective directives. In some states supervision is referred to as conservation or seizure.

Supervision orders are often confidential, without formal court proceedings,<sup>6</sup> which can help stabilize a deteriorating situation without additional market disruption. Statutes commonly authorize regulators to restrict asset transfers and other significant transactions during this period. The goal is to require corrective action to improve the insurer’s condition and protect policyholders before more formal proceedings become necessary.

From the guaranty association perspective, claims obligations do not transfer during this stage though limited confidential coordination can still be valuable. Early engagement can help to ensure policyholder protections remain in place if circumstances drastically change. Guaranty associations may also provide insight into the completeness of a company’s claims data and its readiness for transfer to the NAIC-approved Uniform Data Standard (UDS) format. As data and technology play an increasingly central role in insurance operations, evaluating data integrity can also provide insight into a company’s operational discipline and claims administration.

### ***Rehabilitation: Attempting to Restore the Insurer***

If the insurer’s condition worsens, the commissioner may petition the court for an order of rehabilitation. In rehabilitation, the commissioner, acting as rehabilitator, assumes control of the insurer and works to correct the conditions that led to its financial distress.<sup>7</sup> The commissioner often appoints an SDR to manage the day-to-day administration of the rehabilitation under the court’s supervision.

Rehabilitation is employed when regulators believe the company’s condition may still be stabilized and that its financial or operational problems can be addressed without immediately shutting it down. Rehabilitation orders may restrict new business, suspend certain payments, preserve reinsurance arrangements, and centralize control of the company’s operations with the receiver.<sup>8</sup> The goal of rehabilitation is to restore the company to a sound financial condition or to transfer the company’s policyholder liabilities to one or more solvent insurers.

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<sup>4</sup> NAIC Receivers’ Handbook, Ch. 1.

<sup>5</sup> NAIC Receivers’ Handbook, Ch. 2, “Administrative Supervision.” Introductory Overview.

<sup>6</sup> NAIC Receivers’ Handbook, Ch. 2.

<sup>7</sup> NAIC Receivers’ Handbook, Ch. 3, “Rehabilitation.”

<sup>8</sup> NAIC Receivers’ Handbook, Ch. 3.

This stage is particularly important to state guaranty associations. If rehabilitation occurs, it allows time for critical operational planning to prepare for the potential of liquidation. The NAIC Receivers' Handbook emphasizes a 'two-track' approach during rehabilitation, under which efforts to stabilize the insurer proceed in parallel with contingency planning for liquidation.<sup>9</sup> This planning helps to ensure that, if liquidation occurs, policyholder protections and claims administration can transition quickly and with minimal disruption.

Readiness actions may include confidentiality agreements, centralized co-ordination, protection of critical policyholder benefits, and preparation of claims data in a usable communications format such as UDS, which enables guaranty associations to assume claims handling responsibilities efficiently if liquidation becomes necessary.

### **Liquidation: Protecting Policyholders After Insolvency**

If further rehabilitation efforts would be futile or could increase the risk of harm to policyholders, creditors, or the public, the regulator may seek a court order of liquidation.<sup>10</sup> The regulator also may seek a court order of liquidation without a preceding rehabilitation. Upon liquidation, the commissioner (as liquidator), often acting through the SDR, takes control of the insurer's assets, marshals the estate, and administers distributions according to the applicable statutory priority scheme.<sup>11</sup> The authority of the board of directors and management of the insurer is terminated. Additionally, new and renewal business ceases and policies are canceled in accordance with law and the receiver focuses on securing assets, determining liabilities, and distributing assets of the estate.<sup>12</sup> Typically, liquidation concludes with the dissolution of the insurer.

At the same time, guaranty associations become central to policyholder protection. In most states, their obligations are triggered once a court issues a liquidation order that includes a finding of insolvency.<sup>13</sup> Guaranty associations provide coverage to claimants/insureds who are residents of their state and for claims for damage to property in the guaranty association's state. (This is akin to the host principle under European parlance.) Guaranty associations process and pay covered claims in accordance with their statutes and established coverage limits.

Funding for U.S. guaranty associations comes from the existing estate assets distributed according to statutory priority mandates. In many states, the guaranty associations may receive early access to estate funds to help to pay claims and reduce financial strain while the liquidation process continues. If capital from these sources is insufficient to pay consumer claims, the remaining viable insurers licensed in the guaranty association's state for the line of insurance being covered will be assessed to cover the shortfall. The U.S. system is based on a public policy preference for assessing after the insolvency event occurs (ex post), differing from the pre-event funding mechanism that is prevalent around the world (ex ante).

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<sup>9</sup> NAIC Receivers' Handbook, Ch. 3.

<sup>10</sup> NAIC Receivers' Handbook, Ch. 2, "Administrative Supervision."Introductory Overview.

<sup>11</sup> NAIC Receivers' Handbook, Ch. 4

<sup>12</sup> NAIC Receivers' Handbook, Ch. 4

<sup>13</sup> NAIC Receivers' Handbook, Ch. 6, "Guaranty Associations."



The U.S. property and casualty guaranty system covers virtually all licensed property and casualty insurers (subject to statutory language) operating in the United States and has responded to over 215 multi-state insolvencies over the past 25 years. Because insurers often operate across many states, a single insolvency may involve dozens of state guaranty associations co-ordinating in different jurisdictions. The National Conference of Insurance Guaranty Funds (NCIGF) co-ordinates this multi-state activity and provides operational support during insurer insolvencies.

### ***Protecting the Insurance Promise***

The goal of the U.S. statutory insolvency framework is to intervene early, pursue recovery when possible, and resolve insurer failures in an orderly manner when recovery is no longer feasible, while minimizing harm to policyholders and claimants. Achieving this objective requires co-ordination among regulators, receivers, and guaranty associations, along with clear communication with policyholders.

State regulators lead the receivership process, while guaranty associations convert statutory protections into practical support by paying covered claims. Co-ordination becomes particularly important in complex multi-state or multi-line insolvencies, where factors such as data quality, third-party administrator relationships, and continuity of critical benefit payments can influence how smoothly the transition occurs. Together, these efforts help maintain the core promise of the insurance contract.

**Ashley Rosenberger, Avocate générale, National Conference of Insurance Guaranty Funds**

# PACICC Priority Issues: Updates

## *Mitigating 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 December, PACICC teamed up with IBC to deliver a full-day desktop simulation exercise hosted by OSFI and involving a number of senior federal and provincial decision-makers. The exercise was designed to expose the challenges that Canada would face after a major earthquake in either British Columbia or Quebec, and to underscore the severity of the breakdown in policyholder protection following such a major Nat-Cat event, in circumstances where no federal backstop was in place. We are pleased to note that, subsequent to this exercise, Finance Canada launched targeted consultations on February 24 regarding an earthquake insurance “cost-sharing arrangement for federally-regulated insurers.” This follows through on a commitment made by the Federal Government in its November 4, 2025 Budget to consult on ways to ensure the stability of Canada’s property and casualty (P&C) insurance sector in an extreme earthquake event.

PACICC is now fully engaged in this consultation exercise and has met with Financial Sector Policy Branch staff several times to discuss elements of our Systemic Risk Model, and possible roles for our Corporation in the design and oversight of a backstop solution. We are also engaging with IBC, reinsurers, as well as provincial and territorial counterparts. PACICC Board members are meeting in late March to discuss elements of our formal response. The deadline for written submissions is April 10.

Finance Canada’s examination of this issue will be guided by four key principles that may involve trade-offs to achieve an appropriate balance. It is seeking feedback on how these principles could be applied to the design and implementation of a federal cost-sharing arrangement for extreme losses or other possible earthquake insurance solutions.

- 1. Ensuring stability of the insurance industry** – The federal government has a role in preserving financial stability, following an extreme earthquake
- 2. Supporting sound fiscal management** – A cost-sharing arrangement with the insurance industry would be one component of the federal response to an extreme earthquake
- 3. Achieving cost neutrality** – The government’s existing financial stability tools are generally expected to be cost neutral. Ultimately, the insurance industry should be responsible for (and cover) the cost of the risks that it insures



- 4. Enabling Provincial and Territorial Participation** – The federal government will need to consider how financial stability concerns about provincially-regulated insurers can be addressed, while respecting the jurisdiction of provincial and territorial regulators.

PACICC is buoyed by recent developments on this file and will keep Members updated on results of the consultation exercise. We are also pursuing other “incremental” initiatives to help mitigate systemic risk, including:

- **Compensation association designation** – Finance Canada is actively reviewing a formal request from the PACICC Board to have the Corporation designated as a “compensation association” under the *Insurance Companies Act*. This would enable PACICC to serve as a trusted counterparty in crisis scenarios and enhance our standing in the Court under the *Winding-up and Restructuring Act*. The call for this designation will be amplified in PACICC’s response to Finance Canada’s consultation on a cost-sharing solution to systemic earthquake risk
- **Multiple Perils** – PACICC is liaising with regulatory partners and the Canadian Institute of Actuaries on the need to enhance stress testing around sequential events, such as aftershocks. It is also working with York University to conduct additional research into sequential-risk scenarios
- **Update our Systemic Risk Model** – PACICC will release a revised edition of our Systemic Risk Model with an update to our “Tipping Point” estimates later this year.

### Enhancing Resolution Capabilities

A key step in enhancing PACICC’s resolution capabilities has been the incorporation and chartering of a “Bridge Insurer,” to meaningfully enhance its response capabilities in a range of distress/crisis scenarios. PACICC established the new Bridge Insurer (PACICC-SIMA General Insurance Company, PGIC) last July, and subsequently received formal approval from OSFI to commence and carry on business, effective January 1, 2026. PACICC has been working with OSFI to establish routine financial reporting and auditing protocols. At the same time, steps are being taken to secure licences for PGIC to operate in all Canadian provinces and territories. Work on this file will continue throughout 2026. The plan is for PGIC to remain a dormant shell entity unless and/or until called upon to assist with the resolution of a PACICC Member insurer.

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. Such actions 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 in Canada, these responsibilities are currently shared among regulators, PACICC and its sister guarantee fund in the Life Insurance industry, Assuris. OSFI is evaluating how best to address FSB’s resolution planning expectations within the context of Canada’s federated model, and is liaising with PACICC and Assuris in the exercise.

PACICC is working with OSFI and Assuris to develop an approach to resolution planning for Internationally Active Insurance Groups (IAIGs) in Canada – 18 PACICC Members currently have this designation. OSFI already requires the IAIGs which they supervise to engage in recovery

planning. In due course, this will be expanded to include resolution planning and the establishment of Crisis Management Groups for domestic 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 is liaising with this team to understand better how it can support resolution planning and crisis management for our IAIG Members.

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

PACICC currently has \$64.7 million (book value, February 28, 2026) in its Compensation Fund, as well as a \$250M standby line of credit (LoC) facility with a syndicate of Canada’s big-six banks. This represents the Corporation’s short-term financial capacity. We anticipate renewing our two-year revolving LoC before the end of April of this year. PACICC estimates that this amount would be enough for the Corporation to manage the short-term liquidity needs of an insolvency for all but the 15-largest PACICC Member Insurers. Later this year, PACICC will conduct a review of the adequacy of its short-term liquidity in the context of new insights gained through newly accessible 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 the Corporation’s long-term financial capacity (currently \$1.4 billion annually, based on Member Insurers’ 2024 year-end results). PACICC has secured high investment-grade credit ratings from two major rating agencies, and both of these ratings have now been successfully renewed for the first time. Maintaining these ratings is inexpensive and consistent with our “low-cost optionality” strategy. PACICC is now consulting with its financial advisors on 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 on June 23 to establish three-year Strategic Priorities for the Corporation for the period 2027-2029. PACICC Board members will review preliminary strategic options for consideration at their April 30 Board Meeting. The Strategic Planning Meeting will facilitate in-depth discussion on a range of policy issues, including: governance; broader engagement with OSFI and Assuris on Resolution; approaches to Coverage & Benefits reviews; enhancing the PACICC brand; a more proactive role in seeking to modernize the Winding-up and Restructuring Act (WURA); and possible alternative Assessment frameworks. Members will be updated on PACICC’s revised Plan direction in future issues of *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.

#### Next Emerging Risks Webinar:

**Thursday, May 21**

Speakers:

**Tom Hanzel**

Chief Financial Officer & Chief Insurance Officer  
California Earthquake Authority

**Tracy Palombo**

Reinsurance and Risk Transfer Director  
California Earthquake Authority

**Iann Villar**

Vice President, Insurance-Linked Securities  
Gallagher Re

Topic:

Design, Governance & Key Business Issues of the  
California Earthquake Authority



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## 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 Forum Meeting Dates:

**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](mailto:icampbell@pacicc.ca) or 647/264-9709.

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