Solvency Matters

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

PACICC

Insolvency protection for home, automobile and business insurance customers

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NEXT

From the Desk of the President

Staying alert on night watch - by Alister Campbell

The PACICC team is hard at work these days preparing for a Strategic Planning session of our Board. Our aspiration is to set the stage for a new and refreshed three-year Plan for 2027-2029, which we would seek to adopt at our Board meeting in November of this year. More on all of this in next quarter's newsletter.

As part of that day-long session, we will also be conducting an insolvency simulation exercise, so that all of our Board can better appreciate the critical decisions that they would be asked to make in the wake of a Court-ordered winding-up of a PACICC Insurer Member. This investment in crisis preparedness is timely for several reasons, not the least of which is that no current member of our Board…and no employee of PACICC…has had the experience of dealing with such an event. Why? Because the last failure in Canada was more than 20 years ago! Just preparing for the simulation has been invaluable for our team, as it has forced us to work through the mechanics in detail and refresh our thinking in the context of the changed business environment (e.g. the need to incorporate social media into our Communications Plan). All of this work has served to remind me just how difficult it is to stay crisis-ready during sustained times of peace. And yet, it is the duty of the night watchguard to stay awake, no matter how quiet the night and how peaceful the times.

Later this Summer, we will be publishing our fourth annual Update to our Global Failed Insurer Catalogue. We believe this compendium to now be the single most comprehensive public database of failed insurers in the world. Authors Grant Kelly and Judy Peng have now identified 1,273 failures in 98 countries, between 2000 and 2025. Insurer failures are happening everywhere – in both developing and developed economies. And 2025 was not a good year, with 40 insurers failing in 17 countries. The large number of insolvencies last year represents both a sudden upward jump in an otherwise downward-sloping trend over the last five years, and a result even higher than the 25-year average of 35 insurer failures annually. But today, I would like to highlight one other insight from this new database that is particularly relevant in a discussion about the need to maintain crisis readiness.

"Authors Grant Kelly and Judy Peng have now identified 1,273 failures in 98 countries, between 2000 and 2025. Insurer failures are happening everywhere – in both developing and developed economies. And 2025 was not a good year, with 40 insurers failing in 17 countries."

Grant and Judy's work shows that almost two-thirds of global insurance failures come in "clusters" (which they define as two or more failures in a three-year period). Why this is the case is a fascinating question well worth its own article, and I encourage readers to dig into that topic in particular when the new Catalogue becomes available. What I do want to highlight right now, is that their research shows that these clusters often occur after "periods of calm" – in some cases, sustained periods of calm stretching decades. The Catalogue includes 34 countries with more than a decade between failures. Sound familiar? It should. Canada's history of failure is actually very aligned with these research findings. We experienced six P&C insurer failures between 2000 and 2003. And none since. But, the research clearly shows that many countries around the world have multiple clusters with long quiet periods in between. The research findings beautifully illustrate the need to stay alert, even in times of relative peace. In fact, it might suggest more urgency than that. These clusters might occur precisely because there was such a large gap between occurrences. Maybe the guardians of solvency can become complacent, and then find themselves suddenly overwhelmed by events?

In the Planning session that we will be conducting with our Board, we will be providing a range of options for potential Key Priorities for the upcoming Plan period. These options respond to changes that we are seeing in the market (e.g. notably increasing scale of many Members), as well as gaps that we continue to see in Canada's resolution framework (e.g. reliance on a badly outdated *Winding-up and Restructuring Act*). I am confident that our Board will agree that, despite all current appearances of calm, there remains a clear and present threat to our Mission – to protect policyholders, minimize costs of insolvency and help to maintain confidence in our industry – if we don't continue to invest in resolution readiness and crisis preparedness. We must not be the night watchguard who is found dozing off in the calm Summer heat.

Speaking of Summer, I hope that all regular readers of this newsletter enjoy a fantastic Q3 and find time off to share with family and friends. Talk to you all again in the Fall!

Alister Campbell, President and Chief Executive Officer at PACICC

Taking a Close Look at How Canada's P&C Industry Started 2026: Profitability Returns to Core Insurance Lines as Market Softening and Investment Volatility Take Centre Stage

by Jeff Stewart

Canada's property and casualty (P&C) insurance sector opened 2026 with a solid performance in a traditionally challenging Q1, delivering sustained profitability and achieving a Return on Equity (ROE) of 12.9%. While strong in absolute terms – exceeding both the 9.8% ROE recorded in Q1 2025 and the industry's 50-year long-run average of ~10.5%, results are more moderate when viewed against broader quarterly performance over the past five years which has averaged around 14.5% since 2021.

Underwriting performance was particularly robust. Insurance Revenues rose by 7.8%, outpacing a 6.0% increase in Insurance Service Expenses and driving a $2.67 billion gain in the Net Insurance Service Result – an 11.5% year-over-year increase. Results were further supported by an unusually mild catastrophe environment, with Cat-related claims totaling just $55 million in the quarter. This figure represents a 93.6% decline, or an $809 million reduction, compared with the same period last year.

The quarter also saw a modest 3.8% decline in Reinsurance Premiums Ceded, a more tempered shift than the double-digit reductions – ranging from 10% to 15% – anticipated based on year-end renewal reports. More consequential, however, was a 13.7% decrease in Recoveries from Reinsurers, most likely reflecting the subdued catastrophe activity.

A final factor shaping insurer performance in the quarter was a notable decline in investment returns, reflected in a reduced Return on Investment (ROI) of 2.8%, down from 4.5% in the first quarter of 2025. The most significant source of weakness was in Fair Value Gains/Losses, which deteriorated by 325%, or $942 million, from a $290 million gain in Q1 2025 to a loss of $652 million in Q1 2026. This deterioration in investment return was partially offset by a favourable $643 million swing in Net Insurance Finance Income/Expenses, driven primarily by changes in insurance liabilities linked to changes in financial assumptions.

The volatility in investment results reflects a more challenging and uncertain macroeconomic environment. Rising global uncertainties, ongoing trade tensions, and increasing recessionary concerns are contributing to fluctuations in interest rates and financial markets, complicating insurers' investment outlook. It is also important to note that insurers are no longer benefiting from the favourable treasury and bond yield conditions that prevailed between 2022 and 2024. As a result, investment income is becoming a less reliable driver of profitability, placing greater emphasis on underwriting discipline as the primary determinant of financial performance in the current environment.

Segment Performance:

Underwriting performance in Canada's Private Passenger Automobile (PPA) insurance market is beginning to show signs of recovery, with first-quarter 2026 results indicating slight profitability. The industry reported a Net Comprehensive Combined Ratio (NCCR) of 98%, a marked improvement from the 106.8% recorded in the same period a year earlier. The NCCR, widely regarded as a key measure of underwriting performance, captures the relationship between total insurance-related costs and net insurance revenue. It incorporates insurance service expenses, reinsurance costs, general and operating expenses, as well as net insurance and reinsurance finance expenses. A ratio above 100% signals an underwriting loss, indicating that claims and expenses exceed premiums and that the line of business is eroding industry capital. Conversely, a ratio below 100% reflects underwriting profitability.

The improved national PPA result in Q1 2026 is largely attributable to favourable performance in Ontario, Quebec, and Manitoba. Despite this progress, underwriting conditions for PPA remain uneven across the country. In every other province and territory, NCCRs continued to exceed the 100% threshold, signalling ongoing underwriting losses. Nonetheless, all 10 Canadian provinces reported improvement over Q1 2025, underscoring a broader trend of gradual stabilization.

Meanwhile, an exceptionally mild catastrophe environment in early 2026 has had a pronounced impact on Personal Property Insurance results (PPI), which became the most profitable segment for Canada's P&C insurers in the first quarter. The industry-wide NCCR for this segment improved to a highly favourable 90.9%, compared with 98.8% at the same point last year. With few exceptions, underwriting performance in PPI was broadly positive across the country. Ontario (100.7%) and Nunavut (102%) were the only jurisdictions to report ratios above the profitability threshold, while all other provinces delivered underwriting gains. Similar to the positive results in the Private Passenger Automobile segment, most regions experienced improvement over Q1 2025; however, Quebec and the Northwest Territories diverged from this trend, reporting increases in their NCCRs of 5.7 and 15.3 percentage points, respectively.

Commercial Property and Liability Insurance remained profitable lines in early 2026, with NCCRs of 96.7% and 95.2%, respectively. However, there are emerging indications that this sustained profitability may be at risk, as abundant market capacity and intensifying competition exert downward pressure on pricing. Performance in Commercial Property was largely stable compared to Q1 2025, showing minimal overall change. In contrast, Commercial Liability experienced a notable deterioration, with results weakening by nearly five percentage points compared to the first quarter of 2025. Despite this shift, both segments continue to operate within profitable territory at the national level. Beneath the aggregate results, pockets of underperformance are becoming more apparent. In the Commercial Property segment, Ontario, Newfoundland and Labrador, Yukon, and the Northwest Territories all reported NCCRs above the 100% threshold, indicating underwriting losses. In Commercial Liability, Manitoba stood out as the only jurisdiction to post an unfavourable result. These exceptions are notable but remain limited in scope, set against an otherwise broadly healthy Commercial underwriting landscape.

A province-by-province analysis of overall NCCR results reveals uneven performance nationwide. Newfoundland and Labrador (105.3%), Yukon (113.8%), and the Northwest Territories (100.6%) were the only jurisdictions to report overall unprofitable outcomes in the first quarter. In contrast, several provinces delivered particularly strong results: Prince Edward Island (88%), Nova Scotia (89.2%), Quebec (90%), Saskatchewan (83.6%), British Columbia (89.7%) and Nunavut (59.5%) each posted highly favourable NCCRs at or below 90%, reflecting robust underwriting profitability.

Overall, the first quarter of 2026 points to a cautiously optimistic outlook for Canada's P&C insurance sector, with favourable claims conditions contributing to stronger financial performance. However, profitability across PACICC's 160 Member Insurers continues to vary, with approximately 21% of insurers reporting negative ROEs. No single trend appears to explain these outcomes. Instead, weaker performance was driven by insurer-specific circumstances, often tied to unfavourable underwriting in select product lines, sub-par net investment results or a high concentration of exposure within particular provinces. PACICC will continue to monitor these insurers closely as results evolve in 2026.

2026 Q1 – Summary of Financial Results

All values are from MSA, as of June 1, 2026
Values exclude mortgage insurers and are in $millions (CAD), except where noted.

	2026 Q1	2025 Q1	Percentage Change
Total Insurance Revenue	24,658	22,870	7.8%
Insurance Services Expenses	-20,200	-19,063	6.0%
Net Expenses from Reinsurance Contracts Held	-1,792	-1,415	26.6%
INSURANCE SERVICES RESULT	2,667	2,392	11.5%
Investment Return	1,129	1,764	-36.0%
Net Finance Income/Expenses	-398	-1,041	-61.7%
NET INVESTMENT RESULT	731	724	1.0%
General and Operating Expenses	-813	-1,189	-31.6%
Other Income and Expenses	247	195	26.3%
NET INCOME	2,310	1,690	36.7%
TOTAL COMPREHENSIVE INCOME	2,162	1,942	11.3%

Select Solvency Indicator Ratios

	2026 Q1	2025 Q1
Net Insurance Service Ratio	89.2%	89.5%
Return on Investment (ROI)	2.8%	4.5%
Return on Equity (ROE)	12.9%	9.8%
MCT Ratio (Capital Available / Capital Required)	250.6	246.4
BAAT Ratio *(Applicable to Branches)* (Net Assets Available / Capital Required)	346.2	342.8

Jeff Stewart, Vice President Finance, PACICC

Insurer “Collapse”: Learnings for P&C Boards

Preparing Directors to avoid serious adverse impacts to Stakeholders - by Stephen Mallory

Introduction

In this article, we explore P&C Insurer “collapse,” which we define as a *material adverse impact to stakeholders,* such as shareholders, bondholders, brokers, employees, pensioners and regulators.

Boards have two key duties to ensure that collapse risks don’t occur: Regulatory; and Statutory-Fiduciary/Care. While P&C directors must keep one eye on solvency and capital requirements (amongst other insurance industry regulatory requirements), they must keep the other eye on satisfying the best interests of stakeholders and preventing collapses such as significant share price drops. Despite newer challenges facing P&C boards, such as Cyber, AI, and Geopolitics, oversight governance lessons from the past quarter century can still help carrier boards in fulfilling today’s duties. In this article, we review regulatory and statutory duties of P&C boards and analyze two types of collapse scenarios: A) Insolvencies and Wind-ups; B) +20% public company share price drops (insurer-specific rather than general market-related). With both, we provide high-level observations on governance missteps. Last, we offer eight actions to guide boards in governance and oversight of the many risks which can lead to collapse.

Regulatory and Statutory Duties of Directors

Directors of Canadian P&C Insurers have a dual responsibility. First, they must fulfill their governance oversight obligations, defined by the authorities which regulate their financial institution. Amongst the many essential functions of these regulators, the most important is to make sure that there is adequate capital to satisfy solvency requirements. Regulators generally provide principles-based, outcome-driven governance guidance that places clear accountability on boards to oversee such things as risk appetite, resilience, and long-term viability. Below in Exhibit A are “*Select OSFI Guidelines relating to Board Risk Oversight Duties*” with some of the key responsibilities of directors of P&C carriers highlighted therein. Provincial and Territorial regulators have similar responsibilities outlined in their guidance. Key is that OSFI (and other regulators) require that boards prioritize “Approval and Oversight” of risk management, strategy, audit plans, and “Oversight” functions, clearly placing the onus for oversight of governance on directors.

EXHIBIT A

Select OSFI Guidelines relating to Board Risk Oversight Duties

The following is a brief overview of some of OSFI’s Board Expectations - it does not cover all aspects of the OSFI Guidelines.

For Federally regulated insurers, OSFI’s 2018 Corporate Governance Guideline scopes board duties. In 2024, OSFI updated how it assesses and rates board effectiveness in matters such as risk management.

2018: OSFI Corporate Governance Guideline

Primary board responsibilities include *approving and overseeing*:

- *Strategy*
- *Risk Management and Oversight*
- *Board, Senior Management and Oversight Functions*
- *Audit Plans*

Additionally, *challenge, advise and guide* senior management in:

- *Operational and Business Policies*
- *Business Performance and Effectiveness of Risk Management*
- *Risk Culture*
- *Board Diversity*
- *Corporate Groups*

2024: OSFI Enhanced Supervisory Focus

- Updated approach materially elevates expectations for board effectiveness
- OSFI changes how it assesses, monitors and intervenes on risk
- Boards of P&C insurers to adapt their oversight to align with the framework's enhanced supervisory focus.

But besides regulatory responsibilities, Canadian P&C directors, along with other board members, have equally important statutory duties defined by the Supreme Court of Canada's decision in *BCE Inc. v. 1976 Debenture holders (2008 SCC 69)*. This case is codified in Canadian federal legislation, specifically section 122(1)(a) of the *Canada Business Corporations Act (CBCA)* which requires directors and officers to "*exercise the care, diligence and skill that a reasonably prudent person would exercise*" and to "*act honestly and in good faith with a view to the best interests of the corporation*." "In the *best interest of the Corporation*" includes consideration for stakeholders such as: shareholders, employees, retirees and pensioners, creditors and others. So, while P&C directors must comply with solvency and capital mandates, they must also satisfy stakeholders and prevent collapses such as reputational harm and share price drops.

A) Insolvencies or Wind-Up Collapses

Of interest to P&C directors will be a brief review of some past PACICC research into why insurers fail, including the fact that between 2000 and 2024, 965 insurers failed, in 71 different countries. "*Why insurers still fail, Mapping the road to ruin: Lessons learned from four recent insurer failures*" (2022) co-authored by Grant Kelly, Ian Campbell and Zhe Peng compares the failure of four international carriers from 2018 to 2021, with the failure of six (6) Canadian insurers: Advocate General (1989); Maplex (1995); Canadian Miller's (2001); HIH (2001); Reliance (2001) and Markham General (2002). Despite generally improved governance practices and some better risk management by executive teams, the authors conclude that common causes include failures in: internal operations; organizational structure; and adequacy of regulator supervision.

In Darrel Leadbetter's 2011 PACICC research paper entitled "*Why insurers fail: Determinants of survivability of new entrants to the P&C industry,*" there is a noteworthy summation "Whether it was inexperience, underwriting misjudgment, capital management decisions (or in some cases, fraud), in the end strategic choices and risk appetites were at the root of all causes of distressed exits." He concludes with three key observations:

- **Executive Experience:** *experience matters, and greater experience of senior management reduces the likelihood of involuntary exit*
- **Market Strategy:** *a market entry strategy needs to include a transition plan from that of a new entrant breaking into the market to a recognized market participant*
- **Internal Controls:** *strong internal controls and financial reporting reduce insolvency risk. New entrants that exited involuntary demonstrated clear breakdowns in internal controls*.

B) Share Price Collapses +20%

While voluntary and involuntary wind-ups and insolvencies of P&C carriers obviously affect stakeholders, so too do other collapses. One example of a serious shock to a P&C carrier is when its share price drops significantly due to irregularities (not simply from cyclical stock market volatility). In this section, we examine five (5) cases of share price drops greater than 20%, with observations on the suspected governance shortcomings which contributed to such "collapses."

Case 1: AIG Accounting Manipulation (2005), Shares drop +20%

AIG's share price fell over 20% March–April 2005. The SEC charged the company with securities fraud involving improper finite reinsurance and other transactions that distorted its reported financial condition. The SEC found that AIG used sham or misleading transactions to manipulate earnings and bolster reserves, prompting restatements and enforcement action.

Observation: These findings raised serious questions in 2005 about the effectiveness of AIG's internal oversight and control environment, and they imply that the board's monitoring of financial reporting and controls was insufficient.

Case 2: Swiss Re Structured Credit Losses (2008–2009), Shares drop 30%

In February 2009, *Swiss Re's shares fell nearly 30%* in a single day after the reinsurer disclosed heavy losses tied to credit default swaps and structured credit exposures and was forced to seek emergency capital from Berkshire Hathaway. Analysts criticized management for reacting to losses rather than proactively managing balance sheet risk, while the firm itself dismantled its financial markets unit and segregated CDS exposures into a legacy portfolio—effectively acknowledging shortcomings in its prior risk management approach.

Observation: Because risk governance at the group level in 2008 was overseen by the board and its committees, these admissions imply that board-level oversight of complex credit exposures was inadequate. The scale of the losses suggests that the board did not fully appreciate the concentration and complexity of the risks being taken.

Case 3: Prudential plc. failed AIA Acquisition (2010), Shares drop 13-20%

Prudential's shares fell around 13–20% in March 2010 following the announcement and subsequent failure of its proposed acquisition of AIA. The UK's Financial Services Authority (FSA) said Prudential had failed "to deal with the FSA in an open and co-operative manner," and that the deal "had the potential to impact upon the stability and confidence of the financial system in the UK and abroad,"

Observation: This situation implies a breakdown in 2010 in the board's core function of strategic challenge and oversight. The FCA's findings (and the subsequent findings of the UK House of Commons Treasury Committee) suggest that the board allowed management to pursue a high-risk, high cost transaction without adequate scrutiny or shareholder alignment.

Case 4: RSA Ireland Reserving & Internal Control Failure (2013), Shares drop +20%

RSA's shares fell over 20% across late 2013 following profit warnings which revealed reserving and control problems in its Irish operations and the need for additional capital. The independent review of RSA Ireland completed by PwC and commissioned by the Central Bank of Ireland identified serious weaknesses in internal controls, governance, and group oversight of the Irish business, and concluded that these deficiencies contributed to the emergence and persistence of the issues. The Group RSA Chair concluded that the incident was "unacceptable…with lessons to be learnt…"

Observation: Because group oversight and governance structures in 2013-2014 ultimately reported to the board, these findings imply that the board did not maintain adequate visibility into subsidiary level risks. The review suggests that the board's audit and risk frameworks were insufficiently robust to detect or prevent control failures.

Case 5: Hiscox COVID Business Interruption Wording (2020): Shares drop 25%

Hiscox's shares fell approximately 25% between March and May 2020 following disputes over the scope of cover under certain business interruption policies during the COVID-19 pandemic. In its judgment in *FCA v Arch Insurance (UK) Ltd & Others*, the UK Supreme Court held that, for a number of wordings (including some used by Hiscox), policyholders could reasonably expect cover for pandemic related business interruption.

Observation: Although the judgment does not address governance directly, the finding that policyholders reasonably expected coverage highlights the consequences of ambiguous product wording. This outcome has implications for product design oversight and suggests that governance processes in 2020, responsible for ensuring clarity and alignment with risk appetite, may not have been sufficiently robust.

Eight actions to assist boards in risk governance oversight

So how can boards prevent carrier collapse? The solutions are complex. A required starting point is for directors to comply with regulator guidance; but directors should also closely examine whether they have adopted best practices in board oversight of enterprise risks. Such review should come from experienced ERM (Enterprise Risk Management) practitioners such as Chief Risk Officers (for larger insurers), or from external advisors for mid-sized or smaller carriers. Such guidance can provide directors with a structured approach to risk oversight.

There is also much literature and education to guide boards, such as at the Institute of Corporate Directors (Canada) which utilizes CPA Canada's "A Framework for Board Oversight of Enterprise Risk (2015)." In the "Handbook of Board Governance" (2024), edited by Richard LeBlanc, Chapter 37 "Risk Oversight for Directors: A Practical Guide," the writer of this paper (author Stephen Mallory) guides boards to follow eight actions, briefly summarized as follows:

- **Action 1 - *Qualified Risk Director:*** Ensure that the board has at least one director who is highly experienced in ERM, can lead board risk oversight and effectively liaise on risk with management
- **Action 2 - *Protecting Independent Directors:*** Create opportunities for IDs to question the risks and processes of the company
- **Action 3 - *Board's Role in Risk:*** Formalize and actualize the Board's Role in Risk Oversight, including approving Risk Appetite and the ERM Policy/Framework
- **Action 4 - *Board Risk Committee Structure:*** Set up a formal Board Risk Committee dedicated to oversight of the risks of the organization, focused on ensuring that proper risk governance practices are actualized at all levels of the organization, including at the board
- **Action 5 - *ERM Maturity of Best Practices in Implementation and Oversight:*** From inside professionals (i.e. CROs) or outside consultation, use tools such as "Gap Studies" to benchmark risk best practices at all levels, including considering the effectiveness of the board's oversight of the organization's ERM processes and risks
- **Action 6 - *Executive Compensation:*** Align Executive Compensation with performance in executing Risk Management milestones
- **Action 7 - *Board Workshops and Education:*** Hold dedicated board risk sessions, and separately board education, giving directors an opportunity to review, comment, learn about and provide input on all elements of ERM
- **Action 8 - *Risk in Strategic Planning and Key Decisions:*** Include risk components in all facets of strategic planning processes, key decisions and material initiatives, including a review of key assumptions.

Summary

Much can be learned by directors from collapses which have significantly impacted stakeholders in the last quarter century. Collapses can occur from: hiring inexperienced executives; internal control failures; risk appetite violations and poor strategic choices; not re-adjusting strategy after initial market entry; underwriting misjudgement; inadequate capital management decisions and investment choices; fraud; ill-advised acquisitions; careless product and policy design; and other reasons. Such missteps can result not only in collapse events such as high-profile insolvencies and wind-ups, but can also result in reputational harm, high staff turnover, share price drops, and many other adverse impacts to stakeholders.

Collapses are often outcomes (not risks themselves, usually from breakdowns at the organizational level. As we face a new era of emerging risks such as technology, geopolitics and climate, recency bias tempts boards to focus attention on the “latest” news stories which might cause a collapse. However, P&C boards are well advised to focus on thoroughly understanding the effectiveness of management’s processes to identify, assess, manage, monitor and report on risks which may lead to potential collapses. To do this, boards are guided to adopt best practices in risk oversight governance.

By Stephen Mallory FCIP, ICD.D, CRM, BA

Stephen Mallory is a 40+year P&C Insurance Industry veteran, an experienced CEO and board member. He is Principal at Directors Global Risk Consulting Inc., primarily focused on providing advice to Canadian P&C insurer boards on risk oversight, and to their executive teams on implementing ERM Frameworks.

PACICC Priority Issues: Updates

Mitigating Systemic Risk

As noted in previous issues of *Solvency Matters*, "Mitigating Systemic Risk" remains a Permanent Priority Issue for PACICC, until such time as some form of federal liquidity backstop mechanism is introduced. We appear to be closer than ever to that goal, given recent federal government action on this file. The PACICC-IBC insolvency simulation desktop exercise, hosted by OSFI in Ottawa in December, may have added momentum to the file by exposing severe gaps in policyholder protection following a major Nat-Cat event, in circumstances where no federal backstop was available.

In February, Finance Canada launched targeted stakeholder consultations on an earthquake insurance cost-sharing arrangement for federally-regulated insurers. The review is governed by four key principles, which may involve trade-offs to achieve an appropriate balance. The principles include: insurance industry stability, sound fiscal management, cost neutrality and provincial and territorial participation.

PACICC has met several times with Finance Canada policy staff to discuss elements of our Systemic Risk Model, and ways that it could assist in the design and oversight of a backstop solution. PACICC highlighted the following points for consideration in its April 9 submission to Finance Canada:

- A "*TRIA*-like" mechanism, as proposed by IBC and modeled on the U.S. *Terrorism Risk Insurance Act (TRIA)*, <u>will address</u> the systemic risk that we have identified
- To be successful, any cost-sharing arrangement <u>must</u> be available to federal <u>and</u> provincial insurers
- As a "national" mechanism, PACICC and its Assessment powers could serve as a means to "recoup" federal funds advanced to insurers – potentially solving the federal/provincial issue identified above
- PACICC's Systemic Risk Model is available to Finance Canada as input into:
  - establishing a "trigger" threshold for a federal cost-sharing arrangement
  - scoping out how much insurer failure could be tolerated (some risk of failure is probably necessary to fully mitigate moral hazard)
- It is critical to keep "Model Risk" in mind. The industry is exposed to model risk due to limits to seismological science. And the PACICC Model makes generalized assumptions which have substantial margin for error. Both concerns highlight the logic for setting a threshold <u>lower</u> than the "Tipping Point"
- A properly designed backstop is likely a pre-condition for better marketplace outcomes for earthquake risk transfer
- A modernized version of the *Winding-up and Restructuring Act (WURA)* will also help to mitigate systemic risk and should be pursued in parallel

- All of our engagement with Finance Canada on the above serves to amplify the logic for designation of PACICC as a “Compensation Association” under the federal *Insurance Companies Act*.

As of November 2025, the federal Budget is now being delivered in the Fall, with an economic and fiscal update following each Spring. As a result, we anticipate that next steps to be taken here will come in the Fall federal Budget. In the interim, we continue to pursue other “incremental” initiatives that will help to mitigate systemic risk, including:

- **Systemic Risk Model Update –** Given the recent developments on the earthquake file, PACICC has advanced the release date of its updated Systemic Risk Model (with new “tipping point” estimates) to June 2026, to inform Finance Canada in its deliberations regarding earthquake risk
- **OSFI Guide to Intervention –** PACICC is providing input as OSFI seeks to update its Guide to Intervention for federally-regulated P&C insurers. The Guide summarizes circumstances under which certain intervention measures may be expected, and describes co-ordination mechanisms in place between OSFI and PACICC and other pertinent parties
- **“Circuit Breaker” Governance –** The PACICC Board has formally committed to act in accordance with the Canadian Council of Insurance Regulators (CCIR) crisis management framework, in advance of any circumstance where use of the financial difficulties clause (“Circuit Breaker”) – Paragraph 36, PACICC Memorandum of Operation (MoO) – might be contemplated. PACICC will notify the CCIR Secretariat promptly at the first indication of systemic risk stemming from financial distress at a PACICC Member Insurer. The CCIR Secretariat will provide a single-point-of-contact for PACICC in crisis scenarios, ensuring effective co-ordination across all 13 provinces and territories, as well as the federal government
- **“Protected B” Status –** PACICC is working with OSFI to obtain “Protected B” status for the Corporation, to better enable the secure flow of confidential information between the two organizations in crisis scenarios. Protected B is a Canadian government data classification standard that applies to sensitive information or assets that, if compromised, could cause serious injury (e.g. financial loss, reputational damage or harm to privacy) to an individual, organization or government. The standard covers technology and cyber security, incident reporting, security forms and background checks
- **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. We are also teaming with York University to conduct additional research into sequential-risk scenarios.

Enhancing Resolution Capabilities

A key step in enhancing PACICC’s resolution capabilities has been the incorporation and chartering of a “Bridge Insurer,” to enhance our response capabilities in a range of distress/crisis scenarios. Our new Bridge Insurer (PACICC-SIMA General Insurance Company, PGIC) received formal approval from OSFI to commence and carry on business, effective January 1, 2026. PACICC worked with OSFI to establish financial reporting and auditing protocols for this shell entity, and these are now becoming routine procedures.

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 to completion in all 13 regulatory jurisdictions throughout 2026. PGIC will remain a dormant shell entity unless and/or until it is called upon to assist with the resolution of a PACICC Member insurer in financial difficulty.

Given the absence of a national resolution authority in Canada, these responsibilities are shared among regulators, PACICC and Assuris (our sister guarantee fund in the Life industry). OSFI is evaluating how best to address the Financial Stability Board's (FSB) resolution planning expectations, within the context of Canada's federated model. Endorsed by the G20, the FSB plays a leading role in promoting the reform of international financial regulation and supervision.

PACICC is working with OSFI and Assuris to develop an approach to resolution planning for Internationally Active Insurance Groups (IAIGs) in Canada. There are four Canadian-supervised insurers that have this designation (three in the Life insurance sector and one in the P&C sector). OSFI requires the IAIGs that it supervises to engage in recovery planning. This will be expanded to include resolution planning and the establishment of Crisis Management Groups. OSFI has established a Crisis Readiness Team (CRT) in Supervision, as a centre of excellence on Recovery and Resolution. PACICC is liaising with the CRT on ways that it can support resolution planning and crisis management for Canada's P&C IAIG. It is worth noting that there are 18 other PACICC Members that have this designation, but are supervised elsewhere in the world. Later this year, PACICC intends to initiate dialogue with other major supervisory authorities to discuss if and how we could participate in some of their Crisis Management Groups as well.

Later this year, PACICC will again be requesting claims and unearned premium data from Members in preparation for its scheduled 2027 review of Coverage and Benefit levels.

Expanding our Financial Capacity – Exploring Medium-Term Capacity Options

PACICC has $65 million (book value, April 30, 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 (renewed in April). This represents the Corporation's short-term financial capacity. We estimate that this amount would be enough for PACICC to manage the short-term liquidity needs of an insolvency for all but our 15-largest Member Insurers. Later this year, we will conduct a review of the adequacy of our short-term liquidity in the context of insights gained through newly secured industry loss exposure and reinsurance data.

Our MoO allows PACICC 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 $1.47 billion annually, based on Member Insurers' 2025 year-end results). We have renewed our high investment-grade credit ratings from two major rating agencies. Maintaining these ratings is an inexpensive means of expanding our potential financial capacity to deal with crisis situations. We are consulting with financial advisors on steps required to operationalize any future debt issuance (e.g. accounting treatment, debt structure, etc.).

Strategic Planning – 2027-2029

Our Board will meet on June 23 to discuss new three-year Strategic Priorities for the Corporation, for the period 2027-2029. Preliminary strategic options were discussed at the April 30 Board Meeting. The Strategic Planning Meeting will facilitate in-depth discussion on a range of policy issues, including: governance; broader engagement on Resolution with OSFI and Assuris; Coverage & Benefits reviews; enhancement of the PACICC brand; modernization of *WURA*; and alternative Assessment frameworks. Members will be updated on the direction of PACICC's revised Plan in the next 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.

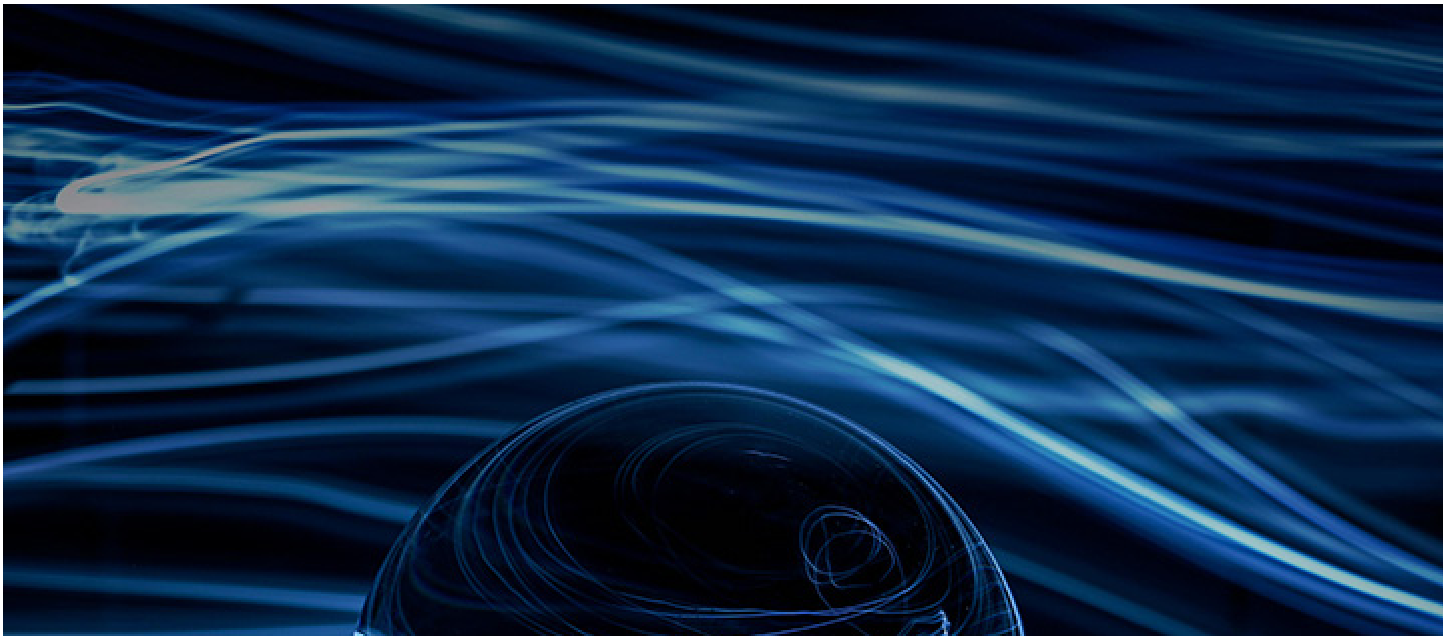
Emerging Risks Webinars

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, October 22

Topic: Quantum Computing



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

Discussion Topics: Model Risk

Key Metrics of IFRS 17

Thursday, November 26

Discussion Topics: 2026 Reinsurance Environment

Operational Resiliency

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
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PACICC

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