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

Reflections on a "Super Soft" Market - by Alister Campbell

During a recent podcast interview with a group of insurance brokers, I found myself struggling to find the right term to describe the current state of the Canadian Commercial lines space. I fell back on a term – "super soft" – which will be familiar only to those devotees of the outstanding Canadian comedy "Letterkenny." Happily, devotees included all of the brokers I was chatting with, and the term seemed to resonate given their own shared market experiences over the last 18 months or so. Those of us with some years/decades of experience in our sector are intimately and painfully aware that property & casualty insurance can be cyclical, but this cycle feels special and I have been reflecting on the implications of this "super soft" pricing environment on a few of my recent commuter flights between the office in Toronto and home in Calgary.

To start with, I feel that we at PACICC may have called it first. It was our Chief Economist Grant Kelly who first described the last few years as a "golden era" for our industry in Canada – with ROEs (15%+) well in excess of the run-rate (10%) average. At the same time, we predicted a "reversion to the mean" which we felt certain was guaranteed to occur, because of the highly competitive structure of our market. When 2024's record natural catastrophe losses didn't materially dent profitability and 2025's more benign Nat-Cat year yielded even more record returns, some may well have felt justified in critiquing PACICC's market call as "Chicken Little-ish." But, looking back now, the signs of a turn were already evident by the end of 2024 and emerged first in the normal place – large-account, specialty Commercial lines. By the end of 2025, both Commercial Property and Liability segments were seeing material rate reductions. The year-end 2025 reinsurance renewals suddenly turned soft too – adding more fuel (underemployed capital) to the fire. And this year, by all reports, "super soft" may even be understating things.

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To understand why this is happening (as it has happened in cycles before), it is important to remind ourselves that while many outsiders may think of property & casualty as an "industry," insiders understand that it is better to think of ourselves as a "market" instead. It is a distinction with a big difference. In Canada, most of our industrial and retail sectors, and all of the other financial services sectors are (or are near) oligopolies. Three major grocery chains. Three major telecoms. Six major banks. Three dominant life insurers. Etcetera. By contrast, our sector has a broad range of competitors with no player holding greater than a 20% share. PACICC has 160 Insurer Members. And this number leaves out many of the farm mutuals in Ontario and some other mutuals in Quebec. More significantly perhaps, it also understates the number of active players in Commercial lines, because it counts Lloyd's as a single member, when in fact they have literally dozens of syndicates competing distinctly and effectively in their own target markets across Canada.

Those of us who still remember anything of our introductory microeconomics class in university will know that such a market structure is closer to "perfectly competitive," which means there are no "price-setters" — only "price takers." Our local Canadian market is just (a small but meaningful) part of a global pool of capital, which flows across geographic and national boundaries, via both reinsurance and primary insurers, in relentless search of "alpha" – returns in excess of the market. The ahistorically strong performance of Canadian Commercial lines – the result of a decade of firming prices in a jurisdiction blessedly free of "nuclear verdicts" – has proven overwhelmingly attractive to everyone…all at once. The results are predictable, precisely because even the strongest local market players are powerless to resist the forces of this global market doing what it always does. The consequences are also predictable. I can think of a few.

First, it will be the rare insurer in Canadian Commercial lines which will be able to achieve its top-line plan this year. The same challenge will hold true for Canada's more Commercial-lines focused brokerages (that some of these are highly levered, private equity-owned consolidators makes this fact even more noteworthy). In another article in this issue, PACICC VP Finance Jeff Stewart illustrates the current upward trend in Property (combined Personal and Commercial) and Commercial Liability commissions (flattered by Contingent Profit Commissions based on prior-year loss ratios that cannot stay this low with rates coming down so fast, and likely also goosed by more generous commissions being negotiated by MGAs promising growth salvation to revenue-starved carriers). And premium taxes are what they are. So, for CEOs of reinsurers, primary insurers and brokerages alike, failing to make their revenue targets means immediate pressure on expense ratios. Speaking from painful experience, headcount reductions are really the only material short-term lever to mitigate the adverse impact of top-line shortfalls on bottom-line results. There is no part of a CEO's job more challenging (and more miserable). By this Fall, it is reasonable to assume that these pressures will be felt industry-wide.

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Second, there will be some players who are more aggressive than others. Everyone will accuse everyone else of irresponsible pricing actions. And each insurer will take pride in their own rigour and discipline – relative to competitors. But, all are part of a market…and all will be at least partially culpable – in defense of "key accounts" or in pursuit of "high quality" new business. While no one will be innocent, there will of course be some players guiltier than others. Where this will play out most dramatically is probably in the MGA-distribution space, where some particularly proactive insurers will offer higher commissions in tandem with greater underwriting and pricing discretion. Experience tells us that these generous terms often come with increased claims management authority too – ensuring that the inevitable acceleration in claims will be slower to surface in case and actuarial reserves, and thus later to be exposed in loss ratios (especially Commercial lines losses which, by their nature, are always slower to fully surface).

Finally, the significant cuts in rates, the lag in loss recognition and the lapses in underwriting rigour and distribution management will all inevitably lead to a reversal of fortunes. The cycle will turn. From a PACICC perspective, our focus will continue to be on chronic underperformers. But extreme cycles – such as the one we are in the midst of now – can and will yield surprises. Those of us reflecting on the recent retirement of Warren Buffet will keep in mind one of his (many) wise sayings – that it is only when the tide goes out that you find out who is swimming naked.

Thankfully, you won't be reading these sobering Summer thoughts until back at your desk this Fall after a (hopefully wildfire and flood-free) break, rested and ready to fight and win in the extraordinary (and extraordinarily interesting) global market of which we are all part. See you on the circuit!

Alister Campbell, President and Chief Executive Officer at PACICC

Across the Board, Underwriting Shines Through a Stormy and Wet Quarter

by Jeff Stewart

Canada's property and casualty (P&C) insurance sector extended its run of strong results in Q2, closing out the first half of the year with a return on equity (ROE) of 14.2%. The industry continues to generate healthy profitability, with ROE comfortably above both the 11.1% posted in Q2 2025 and the long-term average of approximately 10.5%. While the result reflects continued strength, it also suggests a modest normalization from the exceptionally strong quarterly performance seen in recent years, during which ROE has averaged roughly 14.5% since 2021.

Underwriting results remained a key driver of industry performance in Q2. Insurance revenues increased 8.7%, outpacing the 8.2% growth in insurance service expenses and lifting the Net Insurance Service Result to $6.02 billion, up 8.2% year over year. Catastrophe losses, while higher than the unusually benign $55 million recorded in Q1, remained within manageable levels. As a result, first-half catastrophe losses totaled $2.3 billion, up 53.3% from the same period last year and representing an increase of roughly $800 million compared to Q2'25.

Reinsurance activity also produced some notable developments during the quarter. Reinsurance premiums ceded edged down just 1.6%, a far less pronounced reduction than the 10% to 15% decreases anticipated in year-end renewal reports. More surprising was the 7.3% drop in recoveries from reinsurers, which occurred despite higher catastrophe losses relative to the prior year.

Segment Performance

Underwriting performance in Canada's Private Passenger Automobile (PPA) insurance market is continuing to show signs of recovery, with second quarter results indicating sustained profitability. The industry reported a Net Comprehensive Combined Ratio (NCCR) of 96.2%, a marked improvement from the 100.7% 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 Q2 2026 is largely attributable to favourable performance in Ontario, Quebec and the territories. Despite this progress, underwriting conditions for PPA remain uneven across the country. In every other province (including Alberta), NCCRs continued to exceed the 100% threshold, signalling ongoing underwriting losses. Nonetheless, all Canadian provinces and territories reported improvement over Q2 2025 with the exception of Newfoundland, underscoring a broader trend of gradual stabilization.

Catastrophe losses during the first half of 2026 may have impacted Personal Property Insurance (PPI) results, causing the segment to become the least profitable line of business for Canada's P&C insurers in the second quarter. This marks a notable reversal from last quarter, when PPI was the industry's most profitable segment. Despite the elevated catastrophe activity, the industry-wide NCCR improved modestly to 96.7%, compared with 97.4% during the same period in 2025, indicating that underlying underwriting performance remained relatively resilient.

Across the country, underwriting results were generally positive, with most jurisdictions reporting profitable results. Quebec (100.8%), Manitoba (135.2%), and Saskatchewan (103%) were the only provinces to post NCCRs above the profitability threshold, while all remaining provinces and territories generated underwriting gains. However, performance trends were mixed, with seven provinces and territories recording year-over-year improvements and six experiencing deterioration.

The weaker results in Manitoba and Saskatchewan may have been driven by severe convective storm activity. According to CatIQ's third industry loss estimate, the June 9-10, 2026 severe storm outbreak across Saskatchewan and Manitoba generated insured losses of approximately $923 million. Further catastrophe pressure emerged later in the month when a series of thunderstorms struck the Montreal area on June 20 and 21, causing widespread flooding and damage to hundreds of properties. The event is currently estimated to have resulted in over $409 million in insured losses. These two events account for almost 60% of the recorded Cat losses as of June 30, 2026.

Commercial Property and Commercial Liability remained the most profitable business lines for Canada's P&C insurance industry in the first half of 2026, posting NCCRs of 93.5% and 93.2%, respectively. These results continue to reflect strong underwriting performance at the national level; however, early signs suggest that the sustainability of this profitability may be coming under increasing pressure of a soft market. Ample market capacity, heightened competition, and growing downward pressure on pricing are creating a more challenging environment, raising concerns that underwriting margins could narrow in future periods.

While both segments remain firmly within profitable territory, year-over-year comparisons reveal a weakening trend. Commercial Property results deteriorated by approximately three percentage points relative to the second quarter of 2025, while Commercial Liability experienced a more pronounced decline, with its NCCR worsening by nearly six percentage points over the same period. Despite these declines, the commercial insurance sector continues to demonstrate considerable resilience. Most jurisdictions reported favourable underwriting performance, although pockets of underperformance are beginning to emerge beneath the strong national averages. In Commercial Property, Manitoba (136.4%) and Yukon (138.4%) were the only jurisdictions to report NCCRs above the 100% threshold, indicating underwriting losses. Similarly, Manitoba (112.8%) stood out as the sole province to post an unprofitable result in Commercial Liability. Although these exceptions remain relatively limited in scope, they may serve as early indicators of emerging pressures within the commercial marketplace.

A province-by-province analysis of overall NCCR results reveals strong underwriting performance nationwide. Manitoba (122.5%) was the only jurisdiction to report overall unprofitable outcomes as of the second quarter. In contrast, several provinces delivered particularly strong results: British Columbia (87%), the Northwest Territories (74.8%) and Nunavut (73.2%) each posted highly favourable NCCRs at or below 90%, reflecting robust underwriting profitability.

Overall, the second 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

10% 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 or a high concentration of exposure within particular provinces. PACICC will continue to monitor these insurers closely as results evolve in 2026.

2026 Q2 – Summary of Financial Results

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

	2026 Q2 YTD	2025 Q2 YTD	Percentage Change
Total Insurance Revenue	53,044	48,819	8.7%
Insurance Services Expenses	-43,041	-39,775	8.2%
Net Expenses from Reinsurance Contracts Held	-3,988	-3,484	14.5%
INSURANCE SERVICES RESULT	6,015	5,561	8.2%
Investment Return	3,798	3,216	18.1%
Net Finance Income/Expenses	-1,316	-1,447	-9.1%
NET INVESTMENT RESULT	2,481	1,768	40.3%
General and Operating Expenses	-1,856	-2,143	-13.4%
Other Income and Expenses	445	407	9.2%
NET INCOME	5,460	4,116	32.7%
TOTAL COMPREHENSIVE INCOME	5,496	4,372	25.7%

Select Solvency Indicator Ratios

	2026 YTD	2025 YTD
Net Insurance Service Ratio	88.7%	88.6%
Return on Investment (ROI)	4.6%	4.0%
Return on Equity (ROE)	14.2%	11.1%
MCT Ratio (Capital Available / Capital Required)	256.3	257.6
BAAT Ratio *(Applicable to Branches)* (Net Assets Available / Capital Required)	411.6	401.3

Jeff Stewart, Vice President Finance, PACICC

Rising Cost Pressures for Member Insurers: Tracking Commission Expenses from 2023 to 2025 - by Jeff Stewart

Somewhere between 2023 and 2025, the property and casualty (P&C) insurance market in Canada began a transition to a softer market environment. In the transition period, before declining rates and rising claims inflation trends intersect and yield adverse trends in published loss ratios, one way to see evolving market pressures is to look at distribution expenses. In Table 1 (below), we can see that commission rates outpaced premium growth rates materially over exactly this period.

In Table 2, we see that Canada's P&C insurance market continued to expand between 2023 and 2025, but the trajectory of that growth rate changed over the period. Total premiums written increased from $89.3 billion in 2023 to $101.4 billion in 2025, a 13.5% gain. Notably, total commissions increased from $13.7 billion to $16.5 billion over that same period, a much faster 20.1% rise. Significantly, in terms of determining market cycle timing, we can see that both premium and commission growth experienced a much more pronounced increase between 2023 and 2024, in comparison to the change in 2025. In subsequent tables, we can see how these trends differ by line of business.

Table 1

Metric	2023	2024	2025	What it signals
Total Premiums Written	$89.3B	$97.6B	$101.4B	Market top-line expanded steadily, but growth rates slowed after 2024
Total Commissions	$13.7B	$15.4B	$16.5B	Distribution expense rose significantly faster than premiums
Total Commissions as % of Premiums	15.4%	15.7%	16.3%	Commissions see material increase as percentage of premiums written

Table 2

Year-over-Year Comparative Change by Product				
Product	Metric	2023/2024 Change	2024/2025 Change	2023/2025 Change
Total	Premiums Written	9.2%	4.0%	13.5%
	Commissions	11.7%	7.5%	20.1%

Tables 3 and 4 show how commission expense growth rates materially outpaced premium growth in Property (this line of business incorporates both Commercial and Property, so the underlying trends may be different and the explanations are likely more diverse).

All values are from MSA as of August 2026. Values include all private P&C insurers with extracted results from Page 80.15 – Commissions and Page 93.30 – Provincial and territorial exhibit of premiums written

Property premiums written rose from $36.3 billion in 2023 to $41.6 billion in 2025, a 14.7% increase, while Property commissions grew much faster, from $6.5 billion to $8 billion, up 22.5%. The resulting Property commission ratio therefore increased from 17.9% to 19.1%.

Table 3

Year-over-Year Comparative Change by Product

Product	Metric	2023/2024 Change	2024/2025 Change	2023/2025 Change
Property	Premiums Written	9.1%	5.1%	14.7%
	Commissions	11.9%	9.5%	22.5%

Table 4

Commissions as % of Premiums

Product	2023	2024	2025
Property	17.9%	18.4%	19.1%

Tables 5 and 6 show a quite different story for the Automobile line of business. Auto premiums increased from $34.1 billion to $40.5 billion between 2023 and 2025, an 18.6% increase, and the strongest premium growth among the major lines highlighted in the summary. This growth was likely driven by rate increases aimed at offsetting elevated claims costs associated with vehicle theft, higher repair expenses, and ongoing profitability challenges in what has been one of the industry’s most pressured segments.

At the same time, Auto commissions rose 21.7%, from $3.8 billion to $4.6 billion. Despite commissions growing slightly faster than premiums, the Auto commission ratio remained largely stable, rising only modestly from 11.1% to 11.4%, a 30-basis-point increase over the two-year period.

This relationship is noteworthy because it indicates that commission expense generally scaled alongside premium growth, rather than materially outpacing it. The relatively stable commission ratio may indicate that insurer compensation structures remained largely unchanged, despite continued profitability pressures in the segment. It may also reflect a stable distribution channel mix, with no significant shift toward lower-commission, direct-written arrangements. In summary, the Auto line generated substantial premium growth while maintaining a consistent level of commission expense, relative to premium volume.

All values are from MSA as of August 2026. Values include all private P&C insurers with extracted results from Page 80.15 – Commissions and Page 93.30 – Provincial and territorial exhibit of premiums written

Table 5

Year-over-Year Comparative Change by Product				
Product	Metric	2023/2024 Change	2024/2025 Change	2023/2025 Change
Auto	Premiums Written	10.7%	7.2%	18.6%
	Commissions	11.7%	8.9%	21.7%

Table 6

Commissions as % of Premiums			
Product	2023	2024	2025
Auto	11.1%	11.2%	11.4%

Tables 7 and 8 show the same metrics for the Liability line of business and present particularly intriguing results. Written premiums increased from $12.0 billion in 2023 to $12.3 billion in 2025, representing a modest 2.2% increase over the two-year period – below inflation. The “soft market” is certainly visible here. But in the face of this softening top line, commission growth, significantly outpaced premium growth, rising 9.5%, which pushed the Liability commission ratio much higher – from 17.8% to 19.1%. This material increase in the commission ratio indicates that distribution costs are growing faster than underlying premium volume. This dynamic may reflect competitive pressures within the Liability market, as well as shifts in the composition of risks being written.

Table 7

Year-over-Year Comparative Change by Product				
Product	Metric	2023/2024 Change	2024/2025 Change	2023/2025 Change
Liability	Premiums Written	3.8%	-1.6%	2.2%
	Commissions	6.5%	2.8%	9.5%

Table 8

Commissions as % of Premiums			
Product	2023	2024	2025
Liability	17.8%	18.3%	19.1%

All values are from MSA as of August 2026. Values include all private P&C insurers with extracted results from Page 80.15 – Commissions and Page 93.30 – Provincial and territorial exhibit of premiums written

The “All Other” category also warrants attention, as it exhibited a markedly different pattern from other major lines of business. Tables 9 and 10 show that written premiums increased only modestly, rising from $6.7 billion to $6.8 billion between 2023 and 2025, representing growth of just 1.6%, well below the overall market average and inflation. In contrast, commissions grew 20.7% over the same period, outpacing both premium growth within the segment and commission growth across the broader market. As a result, the commission-to-premium ratio increased significantly from 19.1% to 22.6%, a substantial 3.5 percentage point increase. This represents the largest increases in commission intensity among the lines reviewed and suggests that distribution costs grew materially faster than premium volume.

This category encompasses a diverse group of specialty lines, including mortgage, marine, surety, title, boiler and machinery, equipment warranty, credit protection and other niche products. The disproportionate growth in commissions relative to premiums may indicate that insurers and intermediaries continue to view these specialty segments as attractive areas for distribution and business development. Higher commission ratios could reflect the specialized expertise required to place and service these products, as well as the competitive importance of broker relationships within these markets. Although the category remains relatively small compared with Property, Auto, and Liability on an absolute premium basis, the increase in commission allocation suggests that specialty lines continue to be an area of strategic focus and competitive intensity. The data indicates that insurers may be prioritizing growth and market penetration within these niche segments, even where premium expansion remains comparatively modest.

Table 9

Year-over-Year Comparative Change by Product

Product	Metric	2023/2024 Change	2024/2025 Change	2023/2025 Change
All Other	Premiums Written	11.7%	-9.0%	1.6%
	Commissions	19.2%	1.3%	10.7%

Table 10

Commissions as % of Premiums

Product	2023	2024	2025
All Other	19.1%	20.3%	22.6%

Taken together, the 2023–2025 picture is of a P&C market that is growing, but not uniformly. Premium growth remained healthy in the two largest segments of Property and Auto, but with Liability and All Other lines lagging behind. Total commission ratios (as a measure of premiums) increased 90 basis points over the two-year period. Beneath that overall apparent stability, however, there were meaningful shifts: Property, Liability and All Other became much more commission-heavy lines, while Auto remained relatively flat. For insurers, the implication is that aggregate commission ratios

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can mask important line-of-business dynamics. The strategic question is less whether commissions are rising overall, and more, where they are rising relative to premium, whether that increase is tied to profitable growth, and whether channel compensation remains aligned with underwriting performance.

As the current softer market cycle continues, it will be of real interest to continue tracking core expense lines like commissions to see how these major costs work their way through income statements, as industry loss trends begin their reversion to long-term averages.

Emerging Issues

IFRS 18: What Canada's P&C insurers need to know

by Bobby Thompson

Canadian property and casualty (P&C) insurers have spent the past several years implementing IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* and adapting how they measure, report and explain financial performance. The next reporting change is already approaching. IFRS 18 *Presentation and Disclosure in Financial Statements* is effective for annual periods beginning on or after January 1, 2027, replacing IAS 1 and applying retrospectively, including the restatement of comparative information.

Unlike IFRS 17, IFRS 18 does not change how insurance contracts are measured. Instead, it changes how performance is presented and communicated. For Canadian P&C insurers, that distinction is important: the accounting economics may remain unchanged, but the way the results appear in the financial statements, and how management explains those results, could look different.

A new structure for the income statement

At the centre of IFRS 18 is a more structured statement of profit or loss. Income and expenses will be classified into operating, investing and financing categories, alongside newly defined subtotals, including operating profit. Classification depends in part on an entity's specified main business activities (SMBAs).

This is particularly relevant to insurers because investing in assets is generally considered a specified main business activity. Canadian P&C insurers typically maintain significant investment portfolios supporting policyholder obligations and regulatory capital requirements. As a result, investment income and expenses that might otherwise appear in the investing category for many companies, may form part of operating profit in the income statement. Insurers will need evidence supporting their SMBA conclusions and will need to consider assets held for different purposes, including investments associated with non-insurance businesses. Income and expenses from investments that generate individual and largely independent returns and are not associated with the specified main business activity may require separate presentation in the investing category — for example, a strategic investment with surplus assets or through a consolidated acquisition vertical of the company.

Overall, the change in income statement structure could result in a broader population of items included in “operating” performance than users accustomed to traditional P&C measures might initially expect, and may require additional monitoring of investments in assets.

More transparency around expenses and performance measures

IFRS 18 also introduces new requirements for presenting and disclosing operating expenses. Insurers will need to determine whether presentation by function or a mixed presentation provides the most useful structured summary. Where expenses are presented by function, including IFRS 17 line items such as insurance service expenses, additional disclosures of specified expenses by nature will be required.[1] For some insurers, this will require more granular information than existing reporting processes currently capture.

Another significant change involves management-defined performance measures (MPMs). Certain non-GAAP subtotals of income and expenses, used in public communications to convey management’s view of performance will need to be disclosed within the audited financial statements, together with reconciliations to IFRS measures.

This has particular relevance in Canada’s P&C market, where insurers and analysts frequently focus on measures such as adjusted operating income and combined ratios. Not every commonly used insurance KPI will qualify as an MPM – the combined ratio[2] and gross written premium, as examples, are not subtotals of income and expenses and may not meet the definition of an MPM. Nevertheless, insurers should inventory their externally communicated non-GAAP measures, including but not limited to those disclosures required under National Instrument 52-112 for public companies, and determine which fall within the scope of IFRS 18, whether existing definitions and labels remain appropriate and whether systems and controls can support audit-ready reconciliations.

The Canadian regulatory dimension

For federally regulated Canadian insurers, IFRS 18 will also flow into regulatory reporting. OSFI has confirmed that it is updating insurer regulatory returns to align with IFRS 18, including a revised P&C statement of profit or loss reflecting the new operating, investing and financing categories. Revised filings will be expected from January 1, 2027 for December year-end filers. OSFI has also indicated that institutions retain responsibility for their classification judgements and disclosures and that it does not expect IFRS 18 to materially change its supervisory analysis.

[1] Expenses are required to be disclosed by function, by nature or a mixed presentation. By nature expenses are those classified according to the type of economic resource consumed, regardless of the activity they support. Examples include employee benefits, depreciation, amortization, and asset write-downs. By function expenses are those classified according to the business activity to which they relate. Examples include insurance service expenses, research and development, administration, and distribution expenses.

[2] While ratios themselves do not meet the definition of an MPM, insurers will need to assess whether the numerator or denominator of key performance ratios, when considered on their own, would meet the definition of an MPM.

Canadian P&C Insurance Finance teams will need to align external financial reporting, OSFI returns, management reporting and investor communications while avoiding unnecessary duplication. The experience gained through IFRS 17 implementation can help, but IFRS 18 should not be viewed simply as another financial-statement formatting exercise.

Preparing for 2027 starts now

For December year-end Canadian insurers, 2026 is already the comparative year that will ultimately be presented under IFRS 18. This means the systems, processes and controls needed to produce IFRS 18-compliant comparative information should already be in place. Insurers that have not yet completed their impact assessments or implementation planning should prioritize these activities now to help to avoid a compressed transition ahead of 2027 reporting.

For Canada's P&C sector, IFRS 18 represents the next stage in the evolution of insurance reporting. The strongest implementations will go beyond compliance: they will use the new framework to create a clearer bridge between IFRS results, regulatory reporting and the performance measures management uses to tell its story.

For Canadian P&C insurers, implementing IFRS 18 will require strong interpretation of the new accounting standard and alignment with industry peers. It may involve changes across financial reporting, systems and data, controls, regulatory reporting and external communications. For P&C insurers that have recently invested significantly in IFRS 17 processes and technology, this also creates an opportunity to build on existing capabilities rather than treating IFRS 18 as a stand-alone compliance exercise.

Bobby Thompson, Office Managing Partner, KPMG

The KPMG Team will be pleased to discuss any follow-up questions to this article from any PACICC Member Insurer.

PACICC Priority Issues: Updates

Mitigating Systemic Risk

"Mitigating Systemic Risk" continues to be a Permanent Priority Issue for PACICC, until such time as a federal liquidity backstop mechanism is in place. We are edging closer to that goal, with significant federal government action on this file over the past number of months. The PACICC-IBC insolvency simulation desktop exercise, hosted by OSFI in Ottawa in December, provided helpful and timely momentum on this file by highlighting glaring gaps in policyholder protection following a major Nat-Cat event, in circumstances where no federal backstop was available.

In February, Finance Canada initiated targeted stakeholder consultations on an earthquake insurance cost-sharing arrangement for federally-regulated insurers. The review was governed by four key principles: insurance industry stability; sound fiscal management; cost neutrality; and provincial and territorial participation. PACICC highlighted the following points 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)*, will address the systemic risk that we had identified
- To be successful, any cost-sharing arrangement must be available to federal and provincial insurers
- As a "national" mechanism, PACICC and its Assessment power mechanism 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 can assist Finance Canada in establishing a "trigger" threshold for a federal cost-sharing arrangement, and scoping out how much insurer failure could be tolerated
- A threshold lower than the "Tipping Point" is beneficial — the industry is exposed to model risk due to limits to seismological science, and PACICC's Systemic Risk Model makes generalized assumptions which have substantial margin for error
- 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
- Our ongoing engagement with Finance Canada amplifies the logic for designating PACICC as a "Compensation Association" under the federal *Insurance Companies Act*.

Following the consultation, PACICC has been meeting with Finance Canada policy staff to discuss ways in which PACICC's Systemic Risk Model can assist in the design and oversight of a backstop solution. We are hopeful that the fall federal Budget will include provisions for an earthquake backstop mechanism for Canada's P&C insurance industry. This could be in place as early as Spring 2028, following the introduction of formative legislation and the necessary development of supporting regulations.

As work on this file progresses, PACICC continues to pursue other "incremental" initiatives intended to help to mitigate systemic risk, including:

- **Systemic Risk Model Update –** PACICC published its 4th Update to our Systemic Risk Model (with new "tipping point" estimates), to assist Finance Canada and other policymakers in understanding Canada's threshold for systemic risk
- **OSFI Guide to Intervention –** PACICC has provided 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
- **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

The incorporation and chartering of a "Bridge Insurer" was a key step in enhancing PACICC's 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. Since then, PACICC has worked with OSFI to establish routine financial reporting and auditing protocols and procedures for this shell entity. At the same time, PACICC has taken steps to secure licences for PGIC to operate in all 13 Canadian provinces and territories. Work on this file is continuing 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.

In the absence of a national resolution authority in Canada, these responsibilities continue to be 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 is being 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. There are 18 other PACICC Members that have this designation, but are supervised elsewhere in the world. PACICC will liaise with other major supervisory authorities to discuss if and how we could participate in some of their Crisis Management Groups as well
- **"Protected B" Status –** PACICC is working with OSFI to obtain "Protected B" or equivalent status for the Corporation, to ensure a secure flow of confidential information between the two organizations in crisis scenarios. Protected B status 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. PACICC is completing a penetration test of its IT operations by an external consultant, to ensure that it cannot be successfully compromised by a threat actor
- **Internal Controls Audit –** PACICC is working with an external consultant on a comprehensive audit of internal controls that PACICC has in place governing its operations, including: policies and oversight; monitoring activities; vendor and third-party management; Board/Executive oversight; authentication controls; user access; segregation of duties; data governance; data deletion and media disposal; human resources controls; incident management; and customer and IT support operations

In the coming weeks, PACICC will again be requesting claims and unearned premium data from Members, as it prepares for a scheduled 2027 review of its Coverage and Benefit levels. Up-to-date information regarding average losses in covered lines of business will help to guide our Board's deliberations regarding appropriate benefit levels when resolution of a failed Member requires liquidation and policyholder compensation. We thank Members in advance for their assistance here.

Expanding our Financial Capacity – Exploring Medium-Term Capacity Options

PACICC has $65.5 million (book value, July 31, 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. In the Fall, 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. PACICC is 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

Our Board met on June 23 to discuss and develop new three-year Strategic Priorities for the Corporation, for the period 2027-2029. Preliminary strategic options reviewed at this meeting had been discussed at the April 30 Board Meeting. The Strategic Planning Meeting facilitated in-depth discussion on a range of policy issues, including: systemic risk; corporate governance; broader engagement on Resolution with OSFI and Assuris; future Coverage & Benefits reviews; possible enhancement of the PACICC brand; required modernization of *WURA*; and alternative Assessment frameworks. PACICC's Board will meet on November 5 to finalize its list of 2027-2029 Strategic Priorities for the Corporation. Members will be updated on the direction of PACICC's revised Plan in upcoming 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.

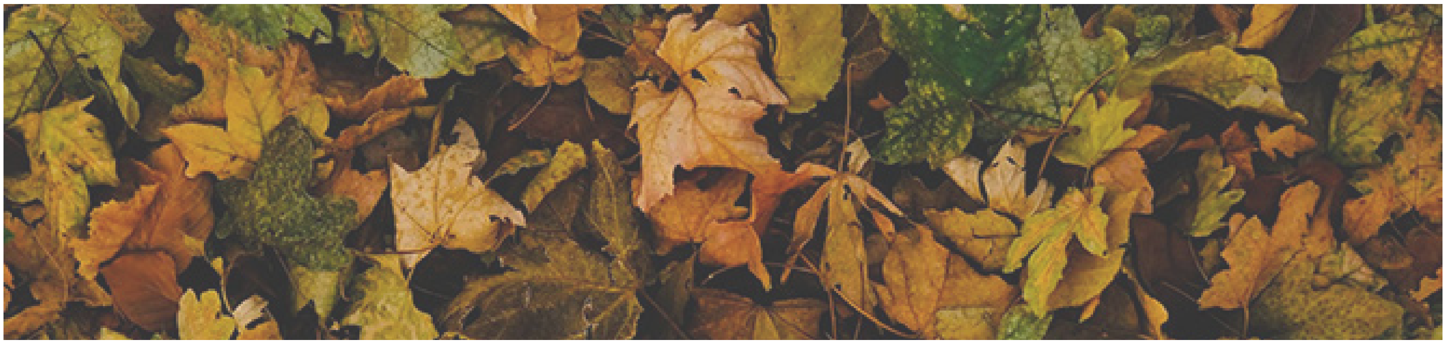
Emerging Risks Webinars

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.

2026 Emerging Risks Webinar:

Thursday, October 22

Speakers:	**Vanda Vickers** Executive Consultant, Global Risk Institute
	Amir Rahmani Enterprise and Operational Risk Management Leader Gore Insurance Company
	Dr. Michele Mosca CEO & Co-founder evolutionQ
Discussion Topic:	Quantum Computing



Risk Officer's Forum Meetings

Forum Meetings include a keynote speaker on a topical industry issue, followed by industry/expert presentations on current ERM issues.

2026 Forum Meeting:

Thursday, November 26

Keynote:	**Evan Johnston** President & CEO, The Wawanesa Mutual Insurance Company
Topic:	CEO Perspective on ERM
Discussion Topic 1	
Speakers:	**Isabelle LaPalme** CEO, Gallagher Re Canada **Peter Askew** President and CEO, Guy Carpenter Canada **Matt Wolfe** President & CEO, Aon Reinsurance Solutions Canada
Topic:	2026 Reinsurance Environment
Discussion Topic 2	
Speakers:	TBA
Topic:	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.

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PACICC

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