Insolvency protection for home, car and business insurance consumers

2023-2025 Plan and 2023 Budget

November 2022

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Message from the President

The COVID-19 years of 2020 and 2021 severely tested the risk management capabilities of our industry and I am pleased to report that although the challenges of managing through a global pandemic have felt overwhelming for all of us at times, our Canadian P&C industry – well-managed, highly capitalized, and capably regulated – demonstrated extraordinary resilience …and strong underwriting results. Some might be tempted to celebrate success after such trying times. But celebration, in my view, would be premature. Because it is hard to think of a time when our industry leaders have had to set future strategies in the face of so much uncertainty, and navigate a course for their firms while facing so many unfamiliar headwinds.

One only has to look back to the Fall of 2021 to realize just how much has changed since we were all presenting our Risk Registers to our Boards and seeking approval for our 2022 Plans. Very few would have anticipated a land war in Europe, or such a significant surge in inflation or the dramatic shift in short- and long-term yield curves that have caused mark-to-market losses across the board, and even among the safest of asset classes. Shock after shock has tested the stability of our financial system and our Canadian insurance industry this year. And thankfully, again, our industry has proven its capacity to respond effectively to meet customer needs and maintain strong financial resilience.

The focus of PACICC remains on preparedness for worst-case scenarios – and specifically, on our ability to protect policyholders in the event that a Member Insurer becomes insolvent. While our industry has proven able to withstand recent financial shocks, the increasing frequency and severity of extreme weather events over the past number of years has placed added emphasis on the need for preparedness around the possibility of natural-catastrophe-caused insolvency. And the ongoing legal disputes around business interruption post-pandemic, as well as concerns regarding "silent cyber" have amplified the merits of ensuring preparedness for "resolution" scenarios and increased the logic for ensuring that PACICC has both the financial capacity and the comprehensive toolkit required to be an effective part of what OSFI Superintendent Peter Routledge calls Canada's financial services "Resolution Infrastructure."

This June, the PACICC Board of Directors held a first-of-its-kind, Strategic Planning Conference. Central to our discussions was a key question – Is our Industry Resolution Ready? And, our Board concluded that the answer was…Not Yet. Our Board concluded that there was more work to do. As a result of these important discussions, PACICC staff received a Board mandate to take steps both to enhance our Financial Capacity and TO expand our Resolution Capabilities.

Enhancing our Financial Capacity

Over the past several years, PACICC has been examining a number of different ways to expand our short-term financial capacity – without unnecessarily encumbering Member Insurers with large increases in annual Assessments. In this process, we evaluated a range of options, and engaged in exhaustive industry consultation regarding both reinsurance purchases and/or a resumption of capital levies. After deliberation, and with indicative pricing available regarding the potential costs of a standby line of credit facility, our Board has concluded that an annual engagement fee for such a liquidity facility represents the most cost-effective option for PACICC and the industry.

We are now working to secure a Standby Line of Credit – for up to $250M – to complement and supplement our existing emergency financial capacity in resolution and liquidation scenarios. Our modelling indicates that such a sum – in tandem with our current Compensation Fund – will be adequate to address short-term emergency funding needs in scenarios involving all but the top-15 insurers.

Expanding our Resolution Capabilities

During the comprehensive industry consultation that we conducted in 2020 around "Expanding PACICC's Resolution Toolkit," the idea of PACICC incorporating an OSFI-chartered "Bridge Insurer" piqued interest. After more fulsome discussions with key stakeholders during the run-up to our Strategic Planning Conference, the logic for adding this tool – suited to a range of distress/crisis scenarios – was affirmed. In the strategic discussions with our Board, we also drew from the knowledge that our peer organization on the Canadian life insurance side (Assuris) long ago incorporated such an entity ("CompCorp Life") under OSFI supervision, and has shared with us useful insights into the relatively low run-rate costs of having this asset in their arsenal.

Based on instructions from our Board, we have now initiated dialogue with OSFI regarding this prospective enhancement to our resolution infrastructure. We believe it could meaningfully enhance our capabilities and ensure that we are positioned to be an effective resolution partner for supervisors dealing with a case of insurer distress in very specific but credible scenarios (including, for instance, an insurer which has incurred "toxic liabilities" or in the event of distress among any one of the insurers in the top 15, where liquidation would be intolerably costly for all). We are optimistic that we will be able to move forward on this initiative before year-end 2022.

Next Steps on Strategic Initiatives

These two proposed initiatives will both necessarily involve some increased costs for PACICC, and these costs will of course have to be borne by our Members, via an increased annual Administrative Assessment. But, if these tools are designed appropriately, we believe the costs will be no more than incremental, and will be far outweighed by the benefits that the new tools will deliver if and when we are called upon to respond in a future crisis situation.

Continued Engagement in Risk Management Best Practice

Critical to the strategy of PACICC during "Times of Peace" is to be an active and engaged part of the always-evolving discussion in our industry around risk management best practice. This past year has seen our engagement in this area continue and expand. Our Risk Officer's Fora and Emerging Risk Webinars continue to be extremely well attended – proof, both of our industry's active commitment to enhanced best practice, but also of the hard work we put into curating these sessions to feature true, best-practice leaders speaking on only the most important topics.

Our most recent research publication in our *Why Insurers Fail* research series was entitled "*Mapping the Road to Ruin: Lessons Learned from Four Recent Insurer Failures*" and offered compelling case studies of significant and recent insurer insolvencies in other developed economies around the globe. The quarterly newsletter we produce, entitled *Solvency Matters*, offers outstanding content and that quality has been recognized by our rapidly expanding list of subscribers. Finally, in a new initiative to help define best practice in the area of Cyber Risk, and in partnership with the Global Risk Institute in Financial Services, we established a new Cyber Risk Webinar series exclusively for Chief Information Officers and Chief Information Security Officers of major Canadian insurers who share experiences of cyber attacks, discuss management of breach events and exchange information on possible mitigation solutions – all under a binding Non-Disclosure Agreement to ensure confidential exchange of true best practice.

Coverage & Benefits Review – 2023

When we modernized our Coverage and Benefits in 2020, we made a commitment to the Canadian Council of Insurance Regulators (CCIR) that we would review them every five years…but that the next review would happen in three years. Consistent with that commitment, we have already initiated our review by preparing a comprehensive data call on our Members so that we can demonstrate the comprehensiveness of PACICC coverage, province by province. Dialogue with the industry will of course be a critical part of this review and we will be sharing results of our data analysis with all of our Members in the Spring of 2023.

Contingency Planning

In 2022 we completed two significant desktop simulations – one with the Autorité des marchés financiers (AMF) and one with OSFI. The exercise with OSFI lasted 18 months and ran through every stage of distress including final failure and liquidation. The process proved invaluable for all participants and confirmed that we are indeed able to rapidly and effectively engage to manage a case of insurer failure. The exchange of Lessons Learned with OSFI has helped to identify several areas where future work will be of mutual benefit, and we have already initiated steps to ensure that we implement required changes to our contingency planning as well as our day-to-day operations.

Despite best efforts, bad things can and do happen. That is exactly why PACICC is forward-looking in its approach, continuing to focus on how best to prepare the industry for worst-case scenarios. When the worst case next becomes a hard reality in our industry, and for one of our Members, PACICC's important groundwork will help to ensure that our industry is ready to answer the call.

Global Engagement

PACICC is proud to be a founding member of the Canadian Financial Services Insolvency Protection Forum and the International Forum of Insurance Guarantee Schemes. We value our working relationships with these other organizations, that are also responsible for insolvency risk protection programs, and seek to learn from them best practices which could help PACICC to be more effective and efficient in the execution of our three-part Mission – protecting eligible policyholders from undue financial loss; minimizing the costs of insurer insolvencies; and maintaining a high level of consumer and business confidence in Canada's P&C insurance industry. Through these international engagements, this year we had the opportunity to communicate directly with the International Association of Insurance Supervisors, with the Financial Stability Board and with the World Bank, all of whom are currently active in efforts to identify best practices in policyholder protection. I am proud to have been able to make a Canadian contribution to these important global discussions.

Conclusion

As we continue with our work on behalf of insurance consumers in Canada, I am grateful for the outstanding coaching and guidance we receive from our Board Chair, Glenn Gibson. Our Board of Directors has always been an excellent and very engaged group. But this year, they exceeded themselves. With the added work around Desktop Simulations, our Independent Directors had far more work than normal and all made invaluable contributions. And with our Strategic Planning work, our entire Board was asked to do a deep dive into global and Canadian best practice, and we benefitted immensely from their full engagement and strong involvement. I am also thankful for the continued commitment and hard work of our small and dedicated team. We have overcome the challenges of COVID-19 and delivered across a broad spectrum of objectives. I am confident that we are now well-positioned for an even more productive 2023!

Alister Campbell
President and CEO
PACICC

2021 and 2022 Priority Issues – Update

Priority Issue for 2021
Contingency Planning and Desktop Simulations

Proper emergency preparedness requires testing of response procedures, to ensure that processes and procedures function as intended when the call for help comes. To ensure that we are suitably prepared to respond in insolvency scenarios, PACICC actively engaged with the AMF and OSFI in separate and comprehensive desktop simulation exercises during 2021. Unforeseen scheduling conflicts and dislocation caused by the COVID-19 pandemic, however, meant that work on the OSFI desktop exercise extended well into 2022. The additional time proved to be of tremendous value, as we were able to successfully run through the entire process – from early warnings of "distress" all the way to liquidation. To support this initiative, a fictional "distressed" insurer was created, complete with a package of supporting data (e.g. OFSI Risk Assessment document, full P&C-1 information, Appointed Actuary Report and Own Risk and Solvency Assessment). An exchange of "Lessons Learned" Reports was held with OSFI in late September. PACICC's Pre-Insolvency Regulatory Liaison (PIRL) Committee will review the desktop simulation findings in October and will deliver a final report to the PACICC Board for review at its November 3 meeting.

Priority Issue for 2022
Review of Scope, Scale and Uses of PACICC Compensation Fund

PACICC has made strong progress on its Priority Issue for 2022 – completing a formal review of the scope, scale and mandate of the Compensation Fund. The Fund was initially established in 1997, to ensure PACICC's capacity to refund unearned premiums of affected policyholders following an insolvency without delay, while arrangements are being made for a General Assessment to collect additional required funds. The Fund is managed by CIBC Asset Management, overseen by PACICC's Audit & Risk Committee, and governed by a strict Investment Policy focused exclusively on fixed income securities (with high priority placed on security and liquidity). Its current market value is just over $57 million.

In the Spring, PACICC sought input from Members and other industry stakeholders on the Fund in order to inform discussion at the Board's Strategic Planning Conference in June, and to assist the Board in establishing Priority Issues for the Corporation for 2023-2025.

- ***Scale*** **–** A 2020 report from Eckler Ltd. found that the current Compensation Fund would not be large enough to rebate unearned premiums for policyholders, should any of PACICC's 70-largest Member Insurers default. Additional perspective on Fund adequacy was provided via other PACICC research. Our 2020 *Why Insurer's Fail "Tipping Point"* paper indicated that, for an earthquake generating losses of between $30 billion and $35 billion, a Fund of $225 million could potentially avert an urgent Special Assessment, and thus materially mitigate the risk of systemic contagion. PACICC also examined best practice in other organizations in Canada's financial services sector and engaged in a review of funding mechanisms among other members of the International Forum of Insurance Guarantee Schemes.

- ***Scope*** **–** Stakeholder input was sought on other issues related to the size of the Fund, including: achievement of the new target through alternative reinsurance scenarios and the costing of a standby line of credit, as an alternative to reinsurance and/or capital levy; impact of any potential changes on PACICC's tax status as a not-for-profit entity; and treatment of Member Insurer contributions as capital for purposes of the Minimum Capital Test (MCT), as is done in certain other international jurisdictions.

- ***Uses*** **–** Stakeholders were asked how the Compensation Fund could best be used to advance PACICC's mandate, including: as collateral, allowing PACICC to issue a guarantee; as a potential source of funds for reinsurance purchases; and as the source of funds for capitalization of a Bridge Insurer (PACICC Corp).

PACICC Strategic Planning Conference

PACICC's first Strategic Planning Conference, held on June 9, 2022, enabled Board members to confirm PACICC's Priority Issues for the period 2023-2025. Based on the guidance from our Board and the broad range of issues facing the Corporation, PACICC will need to move on from its tradition of focusing on only one "Priority Issue" each year. The complexity of some of the public policy issues faced means that some cannot be neatly resolved in a single calendar year as they have varying timeframes, depth, complexity and inter-connectedness. Reality also dictates that many need to be acted upon in the near term, rather than being put off for future years. Finally, some priorities (the Federal Backstop Mechanism being a good example) are contingent on third-party decisions that are outside of PACICC's locus of control.

Priority Issues for the period 2023 to 2025

Proposed Priority Issues for 2023

Coverage and Benefits Review

In 2020, PACICC committed to the Canadian Council of Insurance Regulators (CCIR) that it would review its coverage and benefits at least once every five years, with the next review occurring within three years. Consequently, at its November 3 meeting, the PACICC Board is expected to confirm this matter as the Corporation's Priority Issue for 2023. The scope of the review would again include: extent of coverage, claim limits, return of unearned premiums and the threshold for commercial coverage eligibility. Some regulators have suggested that PACICC should adopt regional benefit limits (i.e. higher limits in certain provinces to reflect higher construction costs). PACICC will base its review on the three guiding principles employed earlier – Fairness; Transparency/Clarity; and Modernization.

Given ongoing uncertainty regarding possible actions by the Federal Government to address the earthquake file, as well as learnings from insolvency simulations in 2021 and 2022, and input from PACICC Members regarding Reinsurance and an increased Compensation Fund, there are an array of possible Priority Issues for the period 2023-2025. They focus on enhancements to PACICC's resolution infrastructure, to address the scale of possible future defaults.

Enhanced Financial Capacity – Increasing PACICC's capacity to handle the failure of any top-70 insurer in Canada, through Member Assessments and a line of credit

It has been concluded that PACICC's current Compensation Fund is not adequate in the case of the failure of any of the top-70 insurers in Canada. At the Strategic Planning Conference, the Board concluded that PACICC should establish a new "target level" of $300 million for its short-term financial capacity. However, it also concluded that there was no compelling business case for generating the required increase in financial capacity via capital levies or through the purchase of reinsurance. Instead, PACICC will seek to increase its financial capacity via a standby line of credit facility. PACICC has approached leading financial institutions in Canada and the U.S. with a request for an expression of interest regarding the provision of a $250 million standby line of credit facility. The objective is to present a recommended provider (or panel of providers), with pre-negotiated terms and conditions (e.g. tenor, drawn pricing, standby fee, set-up fee and covenants/requirements), to PACICC's Board. The Board will consider the most appropriate means for ensuring that the costs for this added capacity are borne fairly across all Members.

Expanding Resolution Capabilities – Initiating a process to establish a Bridge Insurer, in collaboration with OSFI, in order to enhance PACICC's resolution capabilities

In 2020, PACICC Member Insurers confirmed that they would be comfortable if PACICC pursued alternatives to liquidation under defined circumstances. Both Assuris and PACICC have the ability to provide capital, loans or guarantees to recapitalize a distressed insurer in Canada. Assuris has a Bridge Insurer (CompCorp Life) that is regulated by OSFI, to assist with troubled insurers. However, at present, PACICC does not have such a Bridge Insurer capability in place. Strong support was shown for the establishment of a PACICC Bridge Insurer in the most recent survey of stakeholders (including 20 leading/representative Member Insurers, as well as CCIR, IBC and Insurance Brokers Association of Canada). PACICC will examine: steps required; timelines; costs/benefits; funding (pledge of assessment powers); required corporate governance changes; and implications for the PACICC Board. This includes an historical review of information regarding the establishment of Assuris's CompCorp Life (timeline, start-up capital required, etc.). If approved, PACICC's Bridge Insurer would be established through a Special Resolution of the Board, which would be presented to Members for ratification at an Annual General Meeting of Members.

Permanent Priority Issue for 2023-2025
Mitigating Systemic Risk from Quake

PACICC staff continues to work with all stakeholders to address the largest single risk facing the Canadian P&C insurance industry – systemic contagion caused by a large earthquake. Last year's update to PACICC's P&C Industry Model (entitled "*How Big is Too Big? – The Tipping Point for Systemic Failure*") clearly identified the threshold beyond which the industry will not be able to respond adequately to such a major event. The analysis, which included detailed scenarios for such an event in B.C. and Quebec, as well as sensitivity analysis regarding the outcomes of five alternative public policy responses, provided a compelling rationale for a Federal Government backstop mechanism as Canada's best failsafe option.

This past year, PACICC has worked closely with both the Institute for Catastrophic Loss Reduction (ICLR) and Insurance Bureau of Canada (IBC) on possible insurance "pool" designs as well as the structure of "backstop mechanisms" that these various pool designs would require. PACICC has also been liaising on this file with the Bank of Canada, OSFI, the Canadian Deposit Insurance Corporation and the Canada Mortgage and Housing Corporation.

The PACICC Action Plan to address systemic contagion will be revisited annually, until such time as a Federal Government backstop mechanism has been secured and is finally in place.

Discussions have now been ongoing with Ottawa for more than five years. At some point, if discussions with Ottawa fail to produce meaningful positive outcomes to address systemic contagion risk, it will be incumbent on our Board to contemplate alternative funding mechanisms to mitigate systemic risk. Staff will begin work to flesh out options in this area over the Plan period, should suitable solutions not be found in the ongoing dialogue with the federal and provincial governments.

PACICC's Operational Priorities for 2023-2025

Because preparedness is a constant requirement, PACICC also identifies its Operational Priorities, separately from the Key Policy Priorities approved each year by the Board of Directors.

2023

- Review PACICC's Investment Management services, guided by the Audit & Risk Committee – the last such review was conducted in 2018
- Review and refine PACICC's Business Continuity Plan
- Conduct Benchmark Survey on Enterprise Risk Management Practices of all Member firms and publish a report highlighting summary findings for the industry

2024

- Issue a Request for Proposals for PACICC's External Audit services – the last such review was conducted in 2019 – PACICC's five-year Agreement with KPMG (which includes the 2024 Audit) expires in April 2025
- Conduct a review of outsourced Information Technology services to ensure PACICC is utilizing up-to-date, productive and cost-effective technology – the last such review was conducted in 2019

2025

- Review and update PACICC's documented insolvency management procedures as part of maintaining adequate preparedness
- Assess PACICC's operations relative to those of P&C insurance guarantee funds in other countries

Mission and Principles

Mission Statement

The mission of the Property and Casualty Insurance Compensation Corporation is to protect eligible policyholders from undue financial loss in the event that a Member Insurer becomes insolvent. We work to minimize the costs of insurer insolvencies and seek to maintain a high level of consumer and business confidence in Canada's property and casualty insurance industry through the financial protection we provide to policyholders.

Principles

- *In the unlikely event that an insurance company becomes insolvent, policyholders should be protected from undue financial loss through prompt payment of covered claims*

- *Financial preparedness is fundamental to PACICC's successful management support of insurance company liquidations, requiring both adequate financial capacity and prudently managed compensation funds*

- *Good corporate governance, well-informed stakeholders and cost-effective delivery of member services are foundations for success*

- *Frequent and open consultations with members, regulators, liquidators and other stakeholders will strengthen PACICC's performance*

- *In-depth P&C insurance industry knowledge – based on applied research and analysis – is essential for effective monitoring of insolvency risk.*

PACICC's Planning Process

PACICC's Board of Directors has established a formal planning cycle focused on two regular meetings during the calendar year:

- **Spring** – PACICC staff present their evaluation to the Board summarizing the business environment for the Corporation, industry capitalization and measures of solvency risk. Discussion with the Board focuses on trends in the number of insurers with weak regulatory capital scores, rapid premium growth, significant adjustments in loss reserves, and identification of member insurers unwilling to share financial results or other signs of vulnerability. Enterprise risk management (ERM) priority risks, ratings and action plans are reviewed by the Audit & Risk Committee and by the Board.

- **Fall** – The Board considers PACICC's Strategic Plan, identifying the priority issues that the Corporation plans to address over the next three years, as well as the Budget for the coming year. The main focus of the Plan is on the strategic priorities that PACICC will address and deliver on in the year ahead. ERM priority risks, ratings and action plans are reviewed by the Audit & Risk Committee.

PACICC's Risk Profile

PACICC's Risk Profile remains stable. No changes have been made to the March 2022 Report.

Impact Rating

Very High	**Financial Risk** **1-1** Earthquake causes Insolvency where costs exceed PACICC's risk limit-risk appetite	**Financial Risk** **1-2** Major external factor causes insolvency where costs exceed PACICC's risk limit-risk appetite		
High		**Regulatory Risk** **1-3** Benefits enhanced to unsupportable levels		
Medium		**Operational Risk** **1-4** Resource demands		
Low				**Regulatory Risk** **1-5** Solvency supervision
	Very Low	Low	Medium	High

PACICC's priority risks (risk profile)

1-1 Financial Risk
A catastrophic earthquake causes a very large insurer to fail, or leads to multiple, smaller insolvencies; resulting in insolvency costs which exceed PACICC's risk limit-risk appetite (twice PACICC's annual General Assessment capacity)

1-2 Financial Risk
A major external factor (e.g. cyber attack, wildfire, flood, geo-political risk) causes a very large insurer to fail, or leads to multiple, smaller insolvencies; resulting insolvency costs exceed PACICC's risk limit-risk appetite (twice its Annual General Assessment capacity)

1-3 Regulatory Risk
PACICC could be compelled to increase coverage and benefits beyond levels that its Members would support

1-4 Operational Risk
The insolvency of a larger Member, group, or concurrent multiple Member failures, or another event, places extraordinary demands on human resources

1-5 Regulatory Risk
Certain provincial regulators have limited solvency supervision resources and expertise, falling below minimum IAIS standards.

Risk Officer's Forum

PACICC launched a P&C insurance Risk Officer's Forum in December 2013 in response to needs expressed by Member companies for better information sharing on effective ERM practices. This initiative has reinforced PACICC's goal of promoting better enterprise risk management in Canada's P&C insurance industry. Over the past year, the Risk Officer's Forum liaised with principal contacts in all 170 Member companies regarding a full schedule of Forum activities and events. There are more than 650 risk professionals in PACICC's Forum member database, including: Presidents and Chief Executive Officers, Chief Risk Officers, senior Finance department staff from larger Member companies and Chief Agents.

Our Forum and Webinar series is overseen by an Advisory Committee of Member-company CROs (chaired by Brandon Blant of Intact Financial Corporation). 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 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, references and information to facilitate research of risk management and related governance topics.

We have held two online Forum meetings in 2022 (April 14 and September 15), with a third planned for November 16. Forum meetings feature a topical guest speaker and are supported by an ever-changing panel of industry experts, who guide group discussion. Recent agenda items have included: OSFI priorities for 2022/23 (including: OSFI Blueprint and Transformation; Annual Risk Outlook and Environmental Scan; Risks; Climate; Cyber and Technology; Inflation; Auto Insurance; New Products; Human Talent; Culture; and IFRS 17 Transition Readiness Test); Model Risk; Operational Risk/Operational Resilience; and Talent Management.

We also hosted three Emerging Risks Webinars this year, each led by subject-matter experts – "*Risk Identification and Risk Assessment*" (February 24), featuring Jeff Bhamra (Portage La Prairie Mutual Insurance Company), Jason Keyfitz (Trisura Guarantee Insurance Company) and Marc Lipman (Lloyd's Canada Inc.); "*Climate Risk Modeling*" (May 19), featuring Glenn McGillivray (Institute for Catastrophic Loss Reduction), Rachel White (University of British Columbia), Mathieu Boudreault (Université du Québec à Montréal) and Dipika Deol (Swiss Reinsurance Company Ltd, Canadian Branch); and "*Mapping the Road to Ruin: Lessons Learned from Four Recent Insurer Failures*" (October 19), featuring PACICC's Zhe (Judy) Peng, Grant Kelly and Ian Campbell.

The Risk Officer's Forum is planning a full program for 2023:

Risk Officer's Forum Meetings

- **March 30, 2023***
- **September 14, 2023***
- **November 2023*** *(Timed to coincide with OSFI's annual Risk Management Seminar)*

Emerging Risks Webinars

- **February 24, 2023 ("***Risk Identification and Assessment,*" featuring PACICC Member Panel)
- **May 19, 2023***
- **October 20, 2023***

**PACICC's Risk Management Advisory Committee is meeting on December 1, 2022 to plan out speakers and discussion topics for these events*

PACICC Fund Balances

PACICC Liquidation Funds

PACICC has no current Liquidation Fund balances. Some $21 million in liquidation dividends was returned to 140 contributing Member companies in 2019, as a result of the successful final resolution of seven historic insolvencies (Beothic, Canadian Millers', Canadian Universal, GISCO, Hiland, Markham General and Ontario General). The remaining balance, owed to a small number of firms that no longer exist, was transferred to PACICC's Compensation Fund.

PACICC Compensation Fund Balance

	on August 31, 2022
Total market value	**$57,097,306**

PACICC Operating Fund Balance

Projected to December 31, 2023
Total $1,853,071

Projected to December 31 2023		
Option A	**Option B**	**2023 Update**
Total $1,337,737	**Total** $1,797020	**Total** $1,646,595

PACICC Annual Budget

Approved 2022, Proposed 2023 and Updated 2023

	Approved 2022 (November 2021)	Draft/Proposed 2023 Option A (October 2022)	Draft/Proposed 2023 Option B (October 2022)	Updated 2023 (January 2023)
REVENUE				
Administrative Assessment	$1,933,031	$1,933,031[1]	$1,933,031[1]	$3,183,031[2]
Investment income	$20,000	$40,000[3]	$40,000[3]	$40,000[3]
Funding from liquidation funds	$0	$0	$0	$0
Funding from ICLR	$127,783	$32,000[4]	$32,000[4]	$32,000[4]
TOTAL REVENUE	**$2,080,814**	**$2,005,031**	**$2,005,031**	**$3,255,031**
EXPENSES				
Sub-total: Salaries & Benefits	**$1,037,477**	**$1,333,578**[5]	**$1,089,295**	**$1,084,797**
Research and other consulting	$155,000	$125,000[6]	$125,000[6]	$125,000[6]
Revolving Line of Credit Costs[7]				$1,200,000[7]
Legal – Bridge Insurer/Line of Credit		$125,000[8]	$0	$150,000[9]
Professional fees (legal and audit)	$90,000	$94,359	$94,359	$88,310[10]
Premises	$200,000	$100,000[11]	$10,000[12]	$71,000[13]
Operating Expenses (IBC, Telcomm, IT, F&E, Insurance, Misc.)	$213,801	$247,428[14]	$247,428[14]	$247,400[14]
Travel/Seminars/Conventions	$95,000	$95,000	$95,000	$95,000
Directors' fees and expenses	$163,000	$242,000[15]	$242,000[15]	$242,000[15]
Publications/Events	$50,100	$52,000[16]	$52,000[16]	$52,000[16]
Investment mgt and banking fees	$77,200	$81,000[17]	$81,000[17]	$81,000[17]
Contingency	$25,000	$25,000	$25,000	$25,000
Sub-total: Non-Salary Expenses	**$1,069,102**	**$1,186,787**	**$971,787**	**$2,376,710**
TOTAL EXPENSES	**$2,106,579**	**$2,520,365**	**$2,061,082**	**$3,461,507**
Impact on Operating Surplus (Revenue – Expenses)	**($25,765)**	**($515,334)**[18]	**($56,051)**[19]	**($206,476)**[20]

Notes on Assumptions

1. For the proposed 2023 Budget, PACICC's revenue model is unchanged from 2022.
2. For the update 2023 Budget, PACICC's revenue model increased by $1,250,000 from 2022.
3. Investment income estimates in the proposed 2023 Budget are slightly increased from 2021 due to higher interest income.
4. The Budget scenario assumes 50% cost recovery from ICLR for IT costs. This amount is reduced, since recovery included both Premises and IT costs in 2022.
5. Salary and Benefit expenses in Option A assume the addition of an additional full-time employee and the approval of merit increases for existing PACICC staff.
6. Research and Consulting expenses in the proposed 2023 Budget decrease, as some consulting costs associated with the Bridge Insurer initiative have been broken out in a separate budget line item.

7. An additional Budget line was added to cover the $1,200,000 Revolving Line of Credit costs
8. The proposed Budget in Option A assumes that the OSFI will approve PACICC's request to establish a Bridge Insurer.
9. The updated 2023 Budget combines the expected legal costs for the Bridge Insurer and Standby Line of Credit onto one budget line. The estimated legal costs for both items will be approximately $150,000.
10. The updated 2023 Budget better reflects current expected legal and audit costs.
11. The proposed 2023 Budget in Option A assumes that PACICC will locate and work from an office space that costs approximately $100,000 annually.
12. The proposed 2023 Budget in Option B assumes that PACICC will require a storage facility for documentation, furniture and equipment.
13. The updated 2023 Budget reflects the expected costs for officespace, parking and a small storage facility.
14. Operating expenses in the proposed 2023 Budget assume an increase in IT and telecommunication costs and a 25% increase in insurance costs.
15. Directors' fees and expenses have been increased to cover the full annual cost of adding two non-Industry Directors to the PACICC Board, as well as an adjustment to the differential compensation for the Chair of the PIRL Committee.
16. Publications and events expenses have been increased, with the assumption that some events will return to in-person is 2023.
17. Investment management and banking fees have been adjusted to better reflect actual costs after the introduction of electronic fund transfer (EFT) payments.
18. The expected negative variance in the 2023 Budget in Option A will be ($515,334). This can be readily covered by the Corporation's Operating Surplus for the Plan period.
19. The expected negative variance in the 2023 Budget in Option B will be ($56,051). This can be readily covered by the Corporation's Operating Surplus for the Plan period.
20. The expected negative variance in the updated 2023 Budget will be ($206,476). This can be readily covered by the Corporation's Operating Surplus for the Plan period.
21. The current forecasted total expenses for 2022 is $2,043,954.

2023 Budget – Financial Considerations

PACICC Expenditure Budget

The proposed 2023 Budget in Option A has been developed assuming that PACICC will move forward with three potential initiatives:

1. The acquisition of a new office lease agreement – which will cost around $8,500 monthly.

2. The development of a Bridge Insurer – Assuming that the Office of the Superintendent of Financial Institutions (OSFI) approves PACICC's request to establish a Bridge Insurer, the Corporation will begin work on this project and incur significant "start-up" costs in 2023.
3. The added administrative burden associated with managing the planned Standby Line of Credit facility and the new Bridge Insurer will require PACICC to expand its FTE by one – with the addition of a new Vice President, Finance included in the planned Salary & Benefits line of the 2023 Budget.

Total Revenue in the 2023 Budget is $2,005,031. It is proposed that the Administrative Assessment remain unchanged for 2023. The 2023 Budget includes adjustments and increased costs for specific line items due to higher expected investment income, changes in recoveries from ICLR, merit increases to salaries and benefits (approved by the Governance and Human Resources Committee) and an increase in operational and insurance costs.

Total Expenses in the 2023 Budget are $2,520,365. Should the Corporation choose to move to a complete "virtual" model or should the Bridge Insurer initiative be postponed or cancelled, the expenses associated with these items would not be required and the Corporation would generate a small loss of $56,051.

Given the uncertainty regarding both the office lease situation and the prospects for moving forward on the Bridge Insurer initiative, it is proposed that PACICC fund any budget shortfall from its Operating Surplus for 2023, with any long-term adjustments in required Assessments only being made in 2024.

It is important to note that, should the Corporation successfully negotiate terms for a Standby Line of Credit facility, the annual costs (provisionally estimated to be between $1 million and $1.25 million) would be recovered via a separate Member Assessment. For this reason, **the anticipated costs for this facility are not included in the 2023 Budget.**