Solvency Matters

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

PACICC

Insolvency protection for home, automobile and business insurance customers

Issue 28 - January 2025

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Mind the Gap!

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(Grant Kelly and Zhe (Judy) Peng)

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From the Desk of the President

Mind the Gap! - by Alister Campbell

It seems that I spent a disproportionately large portion of Q4 2024 on an airplane…but the upside was lots of time to catch up on airplane reading… and the opportunity to think a bit more deeply about some of the knottier public policy issues that our industry is wrestling with these days. In the airplane reading pile were recent pieces from the G7, and the International Association of Insurance Supervisors, as well as Swiss Re, all on the same topic – "the Protection Gap."

Key in all of this airplane reading was the important insight that "gaps" are not just an issue in developing economies. Significant "gaps" also exist in the most developed economies on earth. Some of these are particularly adverse in their impacts on marginalized communities (a special focus of both public sector papers), but all end up leaving significant uninsured losses to be borne by society (in direct losses for consumers and businesses, or as contingent liability for governments). An excellent summary piece on this topic authored by Professor Mary Kelly can be found on Page 10 of this issue of *Solvency Matters*.

I have always believed that a guiding principle of insurance in capitalist economies is that it is fundamentally better to "institutionalize" risk rather than "socialize" it. By this, I simply mean that private sector mechanisms designed to enable risk transfer for those with exposure, are always preferable to public sector, post-event "bail-out" funding, with losses borne more broadly by taxpayers (including those with little or no direct exposure themselves). If there are indeed such significant "gaps" right now, why isn't our industry doing a better job of responding? OR are there roadblocks that need to be pushed aside in order to enable our industry to help society better spread risk and allocate costs correctly to those incurring that risk?

> **"A guiding principle of insurance in capitalist economies is that it is fundamentally better to "institutionalize" risk rather than "socialize" it."**

I am not finished thinking all of this through in my own head yet, but I thought that I might offer a few high-level thoughts for your own post-holiday reading enjoyment. So here goes!

1. While there is an intensified regulatory focus on climate risk these days, in fact, our industry already has deep knowledge and understanding of this risk. After all, we have been insuring properties (personal and commercial) against climate-related risk for centuries. Of course, shifting climate is now creating natural catastrophe events (notably wind and water) above and beyond prior historical modelling. And this rapidly changing environment is hitting us with greater losses than ever before from harder-to-model perils (wildfire). But our industry has "tried and true" mechanisms for managing down this risk. We start by raising prices for risk transfer. Then, we can increase deductibles. Next, we can introduce exclusions and/or sub-limits to mitigate exposure. Then, and only if a combination of the tools listed above has failed and exposure continues to trend hopelessly in the wrong direction, we simply "get off risk" at renewal.

Obviously, any and all of these actions can contribute directly to the creation and expansion of "protection gaps."

2. In Canada, we can see a version of the scenario described above writ large when we look at risk transfer for earthquake risk. In British Columbia, high prices for protection mean that too many exposed homeowners have chosen not to insure for earthquake at all. And those who have are required to accept high (and seemingly ever-increasing) quake deductibles, as well as significant coverage exclusions (notably for tsunami and soil liquefaction). There is little doubt that when the "big one" eventually hits BC, the portion of loss left uninsured will expose a massive "gap," with adverse reputational impacts for our industry and even greater contingent exposure for our government(s).

   In Quebec, which also has significant quake risk, the exposure is different simply because a combination of lower perceived risk among consumers and the pricing currently on offer have resulted in single-digit take-up rates for quake cover. Yes, consumers will be protected for "fire following," but far too much of the total exposure is currently uninsured, leaving massive eventual losses to be "socialized."

   Finally, the failure of our Federal Government to advance on its commitment to develop some form of earthquake backstop mechanism means that our insurance guarantee system is itself exposed to failure in scenarios that remain remote, but certain. For a G7 nation like Canada to have a "protection gap" as egregious as this is inexcusable and aches for proactive leadership to address it.

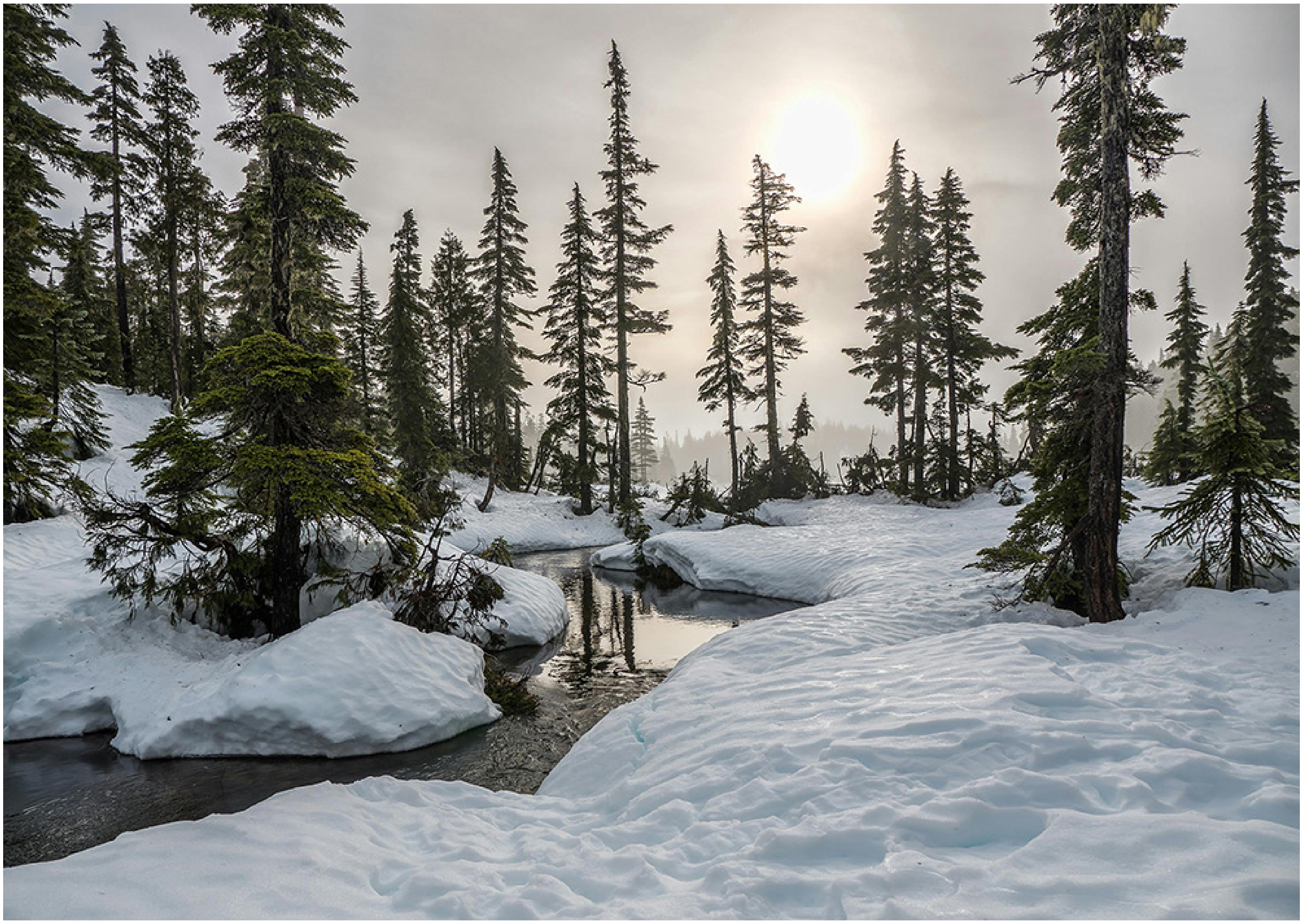
3. In addition to my office desk job, I have the honour of serving as a Senior Fellow at the CD Howe Institute. In early December, the Institute published my update to a P&C Premium Benchmarking study (comparing Canada to other jurisdictions in the OECD), which I had first produced back in 2021. The findings – looking at data from 2020-2022 – remain very much in line with those in the first study. And they are sobering. Canadians pay disproportionately-high shares of our GDP to insure both Property and Auto. But our industry ROEs remain only average at best. The Auto story is complex and directly tied to government interventions in four of our 10 provinces (two government-run and two private-sector). But in Property insurance, the story is a pan-Canadian one.

   What are these Property insurance results telling us? That our industry is already vigorously using the price lever to manage down exposure. But this risk-mitigation tool is not proving adequate, in and of itself. So, already-high Property insurance prices continue to climb and continue to do so at a faster rate than in the rest of the OECD. My conclusion is that Canada's lack of public-private partnership mechanisms to share natural catastrophe risk means that Canadian consumers – unlike consumers in the remainder of the developed world – are left paying full freight for all peak-peril exposure. The result? Our protection gap is bigger…and almost certainly growing.

"Canadian consumers – unlike consumers in the remainder of the developed world – are left paying full freight for all peak-peril exposure."

4. These challenges are not hopeless. In fact, there are a world of solutions on offer. Public/private earthquake mechanisms exist in New Zealand, California and Japan and France. Public/private mechanisms for flood exist in Spain, the United Kingdom, the US and Germany. There is little doubt that the solutions for Canada will need to be uniquely Canadian, but there is much international best practice to draw upon. We just need governments to share our sense of urgency. And, even within Canada, we can look at successful mechanisms in other lines of business. In Auto for instance, long-established mechanisms such as the Facility Association, or provincial risk-sharing pools serve as examplars of how our industry has successfully used our innovation capabilities to enable private sector insurance tools to help to address messy public policy problems around affordability and accessibility. We can…and must…do the same for the full range of secondary and peak Property insurance perils. Now.

I rested better this holiday season having gotten all of that off of my chest. And speaking of holiday seasons, I want to wish all of our loyal *Solvency Matters* subscribers a happy and healthy one, celebrated in peace and tranquility with friends and family. Talk to you all again in the New Year!



Alister Campbell, President and Chief Executive Officer at PACICC

P&C Insurers Survive Everything That Mother Nature Throws at Them - by Grant Kelly and Zhe (Judy) Peng

The summer of 2024 will long be remembered by members of Canada's P&C insurance industry. Four different billion-dollar catastrophic storms hit Canada in a single month, resulting in more than $8 billion in insured losses. Losses in July 2024 exceeded those in the most expensive catastrophic loss YEAR in the industry's history. PACICC was concerned that the third quarter would consequently show erosion in the capital base of some PACICC Members. Happily, the third-quarter financial results indicate that Canada's P&C insurers were able, through both good fortune and good management, to survive everything that Mother Nature threw at Canada – so far – in 2024, and report solidly profitable quarterly results.This surprisingly positive result can be attributed to one critical element of our Canadian industry's prudent risk management – the very high levels of natural catastrophe reinsurance purchased by the industry.

Unsurprisingly, third-quarter results were significantly worse in 2024 than those in the same period in 2023 – Net income in the quarter was $227 million lower and the Net Insurance Service Ratio (NISR) for Personal Property insurance was 125.5%. This was even worse than the already bad 111.5% ratio reported in 2023. The Commercial property NISR also rose from 89.6% in the third quarter of 2023 to 102.1% in the third quarter of 2024.

Fortunately, the rough Q3 of 2024 followed six months of solid profitability for Canada's P&C insurers. And as a result, overall, 2024 is shaping up to be a good year for the industry. The overall return on equity of 13.4% remains above the industry's long-term average of 10.5% and the year-to-date NISR sits at 90.3%, only slightly higher than the 90.1% recorded over the first three quarters in 2023.

Meanwhile, the industry's investment portfolio has benefited from the Bank of Canada's reduction in interest rates in 2024. The industry's return on investment has risen from 2.5% in 2023 to 5.4% so far in 2024. This has resulted in a 137.9% increase in the Net Investment Result. This rebound in investment income also helped insurers to withstand the series of summer storms without significant adverse capital impacts.

As previously noted by PACICC, the past four years have been the most profitable (adjusted for inflation) period since 1975. Despite the huge catastrophic losses incurred in Canada in 2024, Canadian P&C insurers remain profitable. That is good news for all stakeholders with an interest in the health and stability of the P&C insurance system.

2024 Q3 – Summary of Financial Results

All values are from MSA, as of November 25, 2024
Values exclude mortgage insurers* and are in $millions, except where noted.

	2024 YTD	2023 YTD	Percentage Change
Total Insurance Revenue	68,965	63,983	9.3%
Insurance Services Expenses	-62,060	-53,565	15.9%
Net Expenses from Reinsurance Contracts Held	-1,128	-4,106	-72.5%
INSURANCE SERVICES RESULT	6,776	6,312	7.4%
Investment Return	6,140	2,649	131.8%
Net Finance Income/Expenses	-3,135	-1,386	126.2%
NET INVESTMENT RESULT	3,005	1,263	137.9%
General and Operating Expenses	-3,062	-2,300	33.1%
Other Income and Expenses	1,091	691	57.8%
NET INCOME	6,604	4,818	37.1%
TOTAL COMPREHENSIVE INCOME	7,666	4,555	68.3%

Select Solvency Indicator Ratios

	2024 YTD	2023 YTD
Net Insurance Service Ratio	90.3%	90.1%
Return on Investment (ROI)*	5.4%	2.5%
Return on Equity (ROE)*	13.4%	10.4%
MCT Ratio (Capital Available / Capital Required)	242.2%	242.6%
BAAT Ratio *(Applicable to Branches)* (Net Assets Available / Capital Required)	319.7%	309.5%

* Values exclude two mortgage insurers, i.e., Canada Guaranty Mortgage Insurance Company and Sagen Mortgage Insurance Company Canada, and are in millions of CAD, except where noted.

Grant Kelly, Chief Economist, Vice President, Financial Analysis and Regulatory Affairs, PACICC

Zhe (Judy) Peng, Research Associate, PACICC

PACICC’s Assessment Mechanism Methodology Explained
by Grant Kelly

PACICC’s most important financial tool is the power granted via our By-law, and embedded in our Memorandum of Operation (MoO), to levy an annual General Assessment of up to 1.5% of the Direct Written Premiums (DWP) on each Member Insurer, for as long as is required, to fund our obligations in the case of the financial distress of a Member Insurer. For 2025, PACICC estimates that this would allow the Corporation to collect up to $1.31 billion.

We are often asked to explain the methodology for allocating shares of this Assessment among our (currently) 164 Members. The purpose of this article is to explain the prescribed methodology.[1]

Step One: Calculate the “Best Estimate” of Estate Funding Requirements

The Assessment of Members required by PACICC to protect policyholders in the circumstance of financial distress of a Member Insurer will reflect both the shortfall in the insolvent insurer’s estate due to a catastrophe, but also all existing claims on the books of the insurer. PACICC will always seek to reduce the amount of the required Assessment by first accessing all available funds within the failed insurer. However, when an insurance company enters liquidation – whether it is an insolvent insurance company, or a solvent subsidiary of a distressed foreign parent company – the assets of the estate are normally frozen by the Court until the Liquidator has had an opportunity to review all of the claims against the insurer’s estate.

The process to calculate PACICC’s best estimate works as follows:

a) The Court-appointed Liquidator provides the PACICC Board with a detailed analysis of the estate, as a basis for determining the Total Liability, and the available Assets estimations. Regardless of time available, the PACICC Board will involve a third-party actuarial consultancy to assist with its review

b) If possible, within the boundary of PACICC’s obligations to maintain confidentiality regarding information shared with PACICC by regulators, these estimations will be reviewed and recommended by PACICC’s Actuarial Advisory Committee

c) Recommendations of the third-party consultancy and/or PACICC’s Actuarial Advisory Committee will be reviewed by PACICC’s Pre-Insolvency Regulatory Liaison (PIRL) Committee – a Committee of the PACICC Board comprising exclusively our non-Insurer Directors

d) Any recommendation of the PIRL Committee regarding a best estimate determination will be reviewed and approved by the PACICC Board – by simple majority – at a properly constituted Board meeting, with appropriate notice provided to all Participating Jurisdictions.

It is important to note that, according to actuarial best practice, the “best estimate” has a 50% chance of being either high or low. So, it is possible that PACICC may subsequently need to issue further General Assessments if additional funds are required.

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[1] PACICC’s power to levy a General Assessment on Member Insurers is found in Section VII (Assessments on Members, page 7) of the Corporation’s Memorandum of Operation: https://www.pacicc.ca/wp-content/uploads/2024-CONSOLIDATED-MEMORANDUM-OF-OPERATION-March-13-2024n.pdf

Special Case of B.C. Optional Auto

If the failed Member Insurer wrote British Columbia (B.C.) Optional Auto policies, then Paragraph 14(3) of the MoO applies. The portion of the best estimate that applies to B.C. Auto policies would be determined separately. These costs would be shared only among Member Insurers that wrote B.C. Auto policies.

Step Two: Allocate the Best Estimate Across Participating Jurisdictions

PACICC General Assessments are allocated to the surviving insurers that participated in the same markets as the failed insurer, based on market share in covered lines. For example, if the insolvent insurer only sold insurance in B.C., then PACICC would assess the cost of the insolvency to the remaining companies that provided coverage in B.C. If the failed insurer also sold insurance in Alberta, PACICC would assess the costs to insurers in both Alberta and B.C., based on the relative share of premiums in each market.

As an example, assume that the Board-determined Best Estimate was $100M and that the failed Member Insurer wrote insurance in the following markets:

- **Ontario –** 20% of its book of business ($20 million of estimated Assessment)
- **Alberta –** 30% of its book of business ($30 million of estimated Assessment)
- **Non-Auto insurance in B.C. –** 45% of its book of business ($45 million of estimated Assessment)
- **B.C. Auto insurance –** 5% of its book of business ($5 million of estimated Assessment)

Step Three: Allocate the Assessment Across PACICC's Member Insurers

a) **Calculate Adjusted Market Shares**
PACICC maintains a list of all insurers that reported DWP by province. PACICC will calculate adjusted market shares for each Member Insurer, by province, after removing the failed insurer from the provincial market total.

b) **Allocate Assessment to Each Member Insurer**
Assume that a PACICC Member Insurer (any Member but the failed insurer) reported an adjusted market share of 10% in Ontario, 10% in Alberta, 10% in Non-Auto B.C. and 1% in B.C. Optional Auto Insurance. That Member Insurer would be assessed as follows:

Ontario: $20 million x 10% +	= $2 million
Alberta: $30 million x 10% +	= $3 million
B.C. (Non-Auto): $45 million x 10% +	= $4.5 million
B.C. (Auto): $5 million x 1%	= $0.05 million
Total PACICC General Assessment	**= $9.55 million**

Once an invoice is issued, Members Insurers are expected to pay their Assessments within 60 days. While PACICC waits to collect these Assessments, it will deploy its short-term financing capacity to begin protecting policyholders. The Corporation currently holds approximately $63 million in its Compensation Fund. The Fund is composed of liquid bonds that will provide PACICC with access to cash within 48 hours. PACICC also maintains a secured revolving line of credit of $250 million – from a consortium of Canada's big-six banks – that is also accessible with 48 hours.

Emerging Issues

Bridging the Gap in Catastrophe Insurance for Canada
by Professor Mary Kelly

As climate change drives the frequency and severity of natural disasters to unprecedented levels, the resilience of private insurance markets faces growing pressure. Catastrophe losses in Canada to date in 2024 have already exceeded $8.4 billion. This breaks the previous record of $5.064 billion in 2016 (adjusted to $6.366 billion in 2024 dollars), which was largely due to the Horse River Wildfire. Losses from 2024 events, including $2.75 billion from flooding in Ontario and Quebec caused by Hurricane Debbie, $2.93 billion from Calgary hailstorms, and over $1 billion from the Jasper wildfire, underscore that no part of the country is immune to severe climate-induced catastrophes.

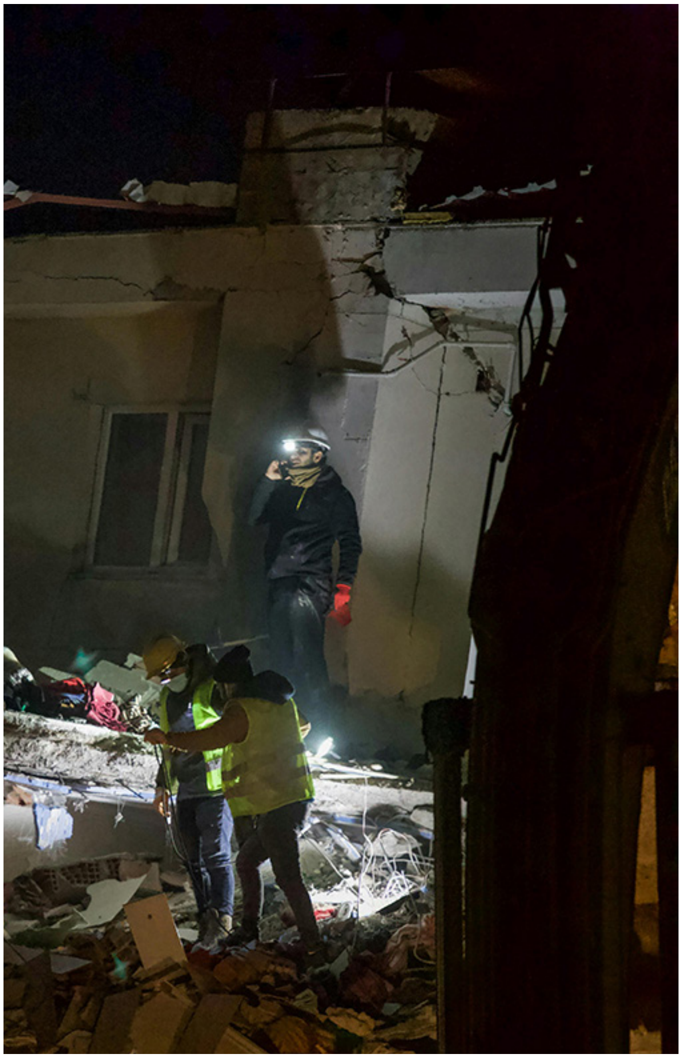
Over the past decade, insured catastrophe losses in Canada have grown at an annual rate of nearly 9%. An insurance market's sustainability depends on balancing premium revenues with losses and operating expenses, a challenge exacerbated by escalating climate risks, and arguably a 9% annual growth rate is unsustainable. This is not just a Canadian problem. PACICC's 2023 research highlights that while historical solvency threats like poor risk selection and inadequate loss reserving remain significant, climate-induced losses represent a rapidly evolving solvency risk worldwide. Catastrophic losses can lead to cluster failures—multiple insurers failing in rapid succession—threatening the resilience of private insurance markets.

> **“Losses from 2024 events, including $2.75 billion from flooding in Ontario and Quebec caused by Hurricane Debbie, $2.93 billion from Calgary hailstorms, and over $1 billion from the Jasper wildfire, underscore that no part of the country is immune to severe climate-induced catastrophes.”**

PACICC's ability to manage cluster failures is not unlimited. PACICC modelling indicates that the p&c insurance market can issue up to $1.3 billion in annual assessments, but larger assessments strain the resilience of the Canadian insurance market. For failures surpassing $3 billion in required funding, PACICC's assessment mechanism would itself create systemic risks across its membership. These constraints emphasize the fragility of relying solely on existing systems and underscore the urgent need for systemic reforms, including robust contingency planning and increased government involvement, to ensure market stability and resilience.

Government participation in catastrophe insurance (CI) programs is critical. Unlimited backstops, where the government assumes all losses beyond a defined threshold, provide maximum stability by distributing costs over taxpayers and over time and minimize the need for unplanned and potentially costly interventions. Alternatively, governments can assume upper layers of losses, capping payouts and transferring residual risks to private insurers or policyholders. If governments assume the initial layer of loss, resilience is increased but tail risk sits with the private insurance industry. Co-insurance agreements—where losses are shared above a retention threshold—reduce the financial burden on insurers but do not entirely mitigate tail risks.

A catastrophe pool that distributes risks across all, or potentially just high-risk policyholders, is an intervention that can stabilize markets and encourage private sector participation. These pools aim to improve the availability of coverage and, depending on the size and return period of the insured peril, may not require government intervention. When supported by reinsurance arrangements or government guarantees, they become more effective by reducing tail risks and enhancing private market resilience. Importantly, such pools must complement rather than compete with private insurers.



Another practical approach involves mechanisms like Belgium's loss-sharing system or the U.S. *Terrorism Risk Insurance Act (TRIA)*. These models show how governments can directly provide financial support to individual insurers. By leveraging the expertise and infrastructure of existing insurers, these mechanisms enhance resilience and market stability without requiring the creation of new insurance entities.

While insurance facilitates financial recovery after disasters, it cannot prevent them. Rising premiums in high-risk areas risk excluding vulnerable populations and may lead to insurer withdrawal from high-risk regions. Coverage gaps, particularly for slow-onset events like sea-level rise and secondary perils, highlight the limitations of traditional insurance models. To address these challenges, governments must consider strategies that go beyond insurance, including subsidies or tax credits for low-income households, enhanced affordability measures, and targeted investments in proactive risk mitigation and community resilience.

> **"While insurance facilitates financial recovery after disasters, it cannot prevent them. Rising premiums in high-risk areas risk excluding vulnerable populations and may lead to insurer withdrawal from high-risk regions."**

CI program sustainability also depends on effective risk mitigation through policies like risk-informed land use planning and climate-resilient building codes. Restricting construction in high-risk areas and enforcing robust standards for new developments are essential strategies. These measures reduce exposure and serve as a foundation for lowering insurance costs by decreasing overall risk levels. Investments in physical resilience projects such as flood defences and wildfire mitigation can significantly reduce community vulnerabilities. CI programs should further incentivize risk reduction behaviours through pricing strategies, aligning economic goals with long-term resilience.

Novel events, such as Hurricane Andrew or the September 11 terrorist attacks, present unique challenges. They can destabilize private markets, expose weaknesses in CI frameworks, and necessitate regulatory forbearance to stabilize capacity. In the aftermath of such events, governments and insurers often reassess risk-sharing agreements, update hazard data, and revise pricing strategies. These recalibrations may lead to the establishment of residual market mechanisms to provide coverage for high-risk properties and restore market confidence.

Public-private partnerships remain central to building effective CI frameworks. Collaboration between governments and insurers can create innovative solutions, such as structured reinsurance agreements backed by government guarantees, providing insurers with the confidence to offer coverage in high-risk areas. Parametric insurance models, which trigger rapid payouts based on predefined criteria, can further enhance efficiency and speed in disaster response.

> **"The time to act is now. As climate change accelerates, the cost of inaction will only grow."**

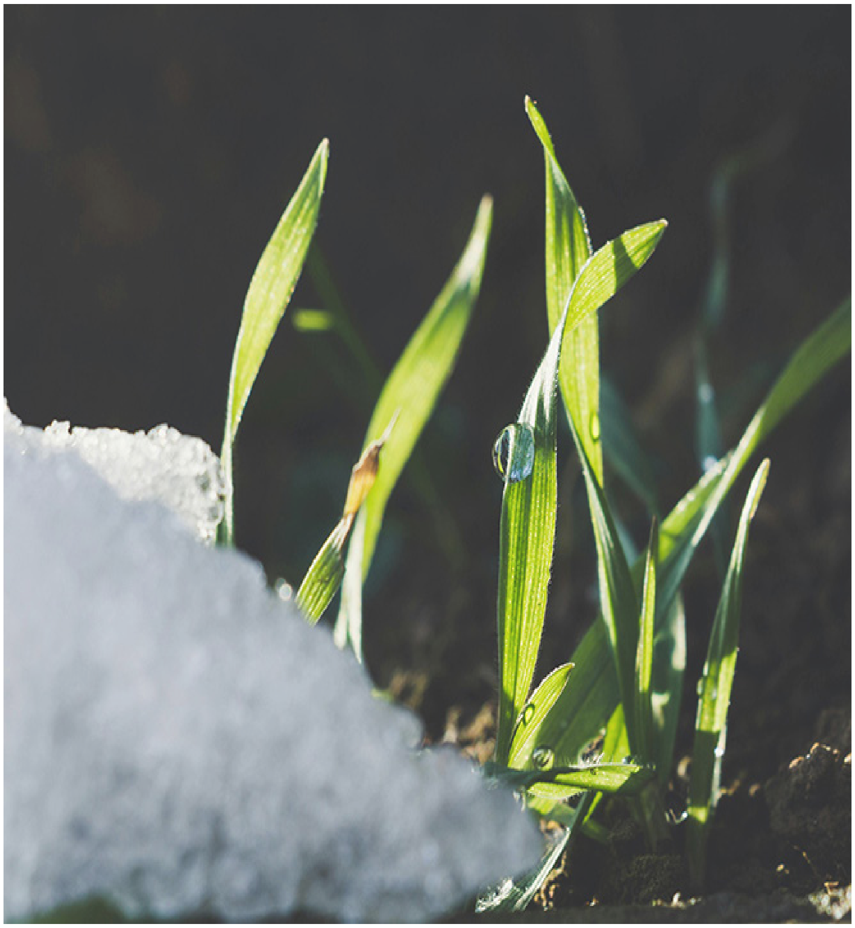
Transparency and education are vital in fostering trust and participation in CI programs. Policymakers and insurers must clearly communicate risk exposures, coverage limitations, and the benefits of mitigation measures. For example, public outreach campaigns can illustrate how proactive measures like retrofitting homes or investing in flood defences reduce premiums and long-term costs. Public awareness campaigns can encourage proactive behaviours reducing both human and financial costs.

The intensifying impacts of climate change demand a forward-looking and comprehensive CI framework for Canada. Establishing a robust National Flood Insurance Program is a crucial first step, but broader strategies are needed to address other risks. Expanding insurance frameworks to include wildfires and developing specialized mechanisms for secondary perils can help close significant coverage gaps. Advances in technology, such as data analytics and machine learning, offer opportunities to predict disaster hotspots and guide targeted interventions. These tools improve pricing accuracy, optimize resource allocation, and ensure programs remain adaptable to evolving climate risks. Strong public-private collaboration is essential to align policy, market, and community goals, enabling Canada to protect its citizens and strengthen its economy against future disasters.

The time to act is now. As climate change accelerates, the cost of inaction will only grow. A sustainable CI program that combines government support with private market stabilization offers the most effective path forward, safeguarding Canadian communities for generations to come.

Mary Kelly, Professor in Finance and Chair in Insurance
Assurance of Learning Co-ordinator, Wilfrid Laurier University

PACICC Priority Issues: Updates



Every Fall, the PACICC Board approves a new Strategic Plan that sets out Key Priority Issues for the Corporation in the coming year, as well as any Permanent Priority Issues. The Plan can be viewed as a living document that identifies and refines priority initiatives, to ensure that PACICC is able to deliver on its three-part mission – protecting eligible policyholders from undue financial loss in the event that a Member Insurer becomes insolvent; minimizing the costs of insurer insolvencies; and maintaining a high level of consumer and business confidence in Canada's property and casualty insurance industry through the financial protection provided to policyholders.

At its November 5 meeting, the PACICC Board approved the Corporation's 2025-2027 Plan. Following is an overview of the (long-term) Permanent Priority Issue and the (short-term) Key Priority Issues for 2025.

Managing Systemic Risk

As noted in past updates, PACICC's Board has established "Mitigating Systemic Risk" as a Permanent Priority Issue, until such time as some form of federal liquidity backstop mechanism is finally put in place. Canada stands alone as a developed nation with significant earthquake exposure – a 4.1-magnitude quake off the coast of B.C. on October 28, being the most recent reminder of this – and no government backstop in place. While the Minister of Finance has affirmed the Government's commitment to address this issue, the timeline for a solution remains unclear.

In the interim, PACICC continues to engage in discussions with stakeholders (including Finance Canada, OSFI, Bank of Canada, CMHC, FCAC and CDIC) regarding implementation of public-private partnerships to address multiple perils, including quake. We are also conferring with IBC and ICLR to ensure that our approaches are aligned. At its November meeting, our Board approved several measures that would focus attention on PACICC's finite capacity to respond to systemic shock, and a series of "incremental" measures that seek to mitigate systemic risk.

The measures include:

- **A principles-based approach for Hardship Claims –** Amending PACICC's Hardship Claims Guidelines to specifically exclude earthquake events
- **Revised Risk Limits –** Updating the Risk Appetite Limit(s) for PACICC
- **Access to Reinsurance Data –** Engaging with Members and regulators regarding a change to our Memorandum of Operation, formally requiring Members to provide PACICC with access to their reinsurance regulatory filings, in order to enhance the accuracy of PACICC's systemic risk model
- **Federal Designation –** Securing federal designation as a "compensation association" under the *Insurance Companies Act*, to enhance communication with regulators
- **Differential Treatment of PACICC Special Assessments –** Formally proposing that OSFI create a structured mechanism enabling an adjustment to its capital treatment of multi-year PACICC obligations in its Minimum Capital Test formula in crisis scenarios
- **Further Desktop Insolvency Simulations –** Holding further insolvency simulation exercises with AMF and OSFI
- **Multiple Perils –** Working with regulatory partners and the Canadian Institute of Actuaries to enhance stress testing around sequential events.

Enhancing Resolution Capabilities – PACICC-SIMA General Insurance

A key step in enhancing PACICC's resolution capabilities will be the successful incorporation and chartering of PACICC-SIMA General Insurance Company (PGIC).

A Bridge Insurer that is specifically designed for the needs of the P&C sector can meaningfully enhance PACICC's response capabilities in a range of distress/crisis scenarios. These scenarios include an insurer incurring "toxic liabilities," or situations involving any of our industry's 17-largest insurers in financial distress, where immediate liquidation would otherwise be very costly for all stakeholders. Our application is now with the Minister of Finance for approval.

Assuming that we gain that approval early in 2025, the next steps will involve securing the licensing of PGIC in all Participating Jurisdictions (10 provinces and three Territories). This will be a Key Priority in 2025. PACICC's Pre-Insolvency Regulatory Liaison (PIRL) Committee will be actively involved in the establishment and implementation of an appropriate governance model for this shell entity.

Another important initiative will be working with OSFI and Assuris to develop an approach to resolution planning for Internationally Active Insurance Groups (IAIGs) in Canada. OSFI already requires IAIGs to engage in recovery planning. This will soon be expanded to include resolution planning and the establishment of Crisis Management Groups. OSFI has established a Crisis Readiness Team in Supervision, as a centre of excellence on Recovery and Resolution. This team is responsible for managing the relationship with the compensation associations (such as PACICC and Assuris). PACICC will be actively engaged with both the OSFI Crisis Readiness Team and Assuris on how we can support these efforts to enhance resolution planning and crisis management in 2025.

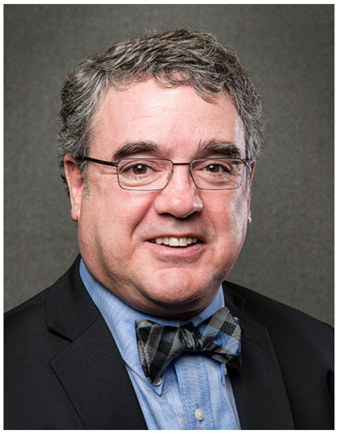
Expanding our Financial Capacity – Exploring Medium-Term Capacity Options

Another Key Priority Issue for PACICC in 2025 will be expanded financial capacity. PACICC has been exploring access to capital markets for debt financing in circumstances where additional liquidity may be required beyond what is available via the Corporation's General Assessment mechanism. Two U.S. guarantee funds (in Louisiana and Florida) have already used this route to secure immediate funding, in order to urgently address a large number of policyholder claims caused by serial Member Insurer failures after a series of large-scale hurricanes.

Over the course of 2024, we liaised with major rating agencies regarding the prospect of securing a credit rating for PACICC. In October, we secured our first rating (a "Private Monitored Rating" with a high investment grade) from Moody's. A second equally strong rating has now been secured from Fitch. Maintaining these ratings (subject to annual review) is inexpensive and entirely consistent with our "low-cost optionality" strategy. In 2025, PACICC will work to better understand the steps required to operationalize such a debt issuance (e.g. accounting treatment, draft offering prospectus, etc.). We will also re-visit reinsurance options for contingent capital solutions, as it appears that there has been some evolution and movement in the parametric market since PACICC last reviewed this subject area in 2021.

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

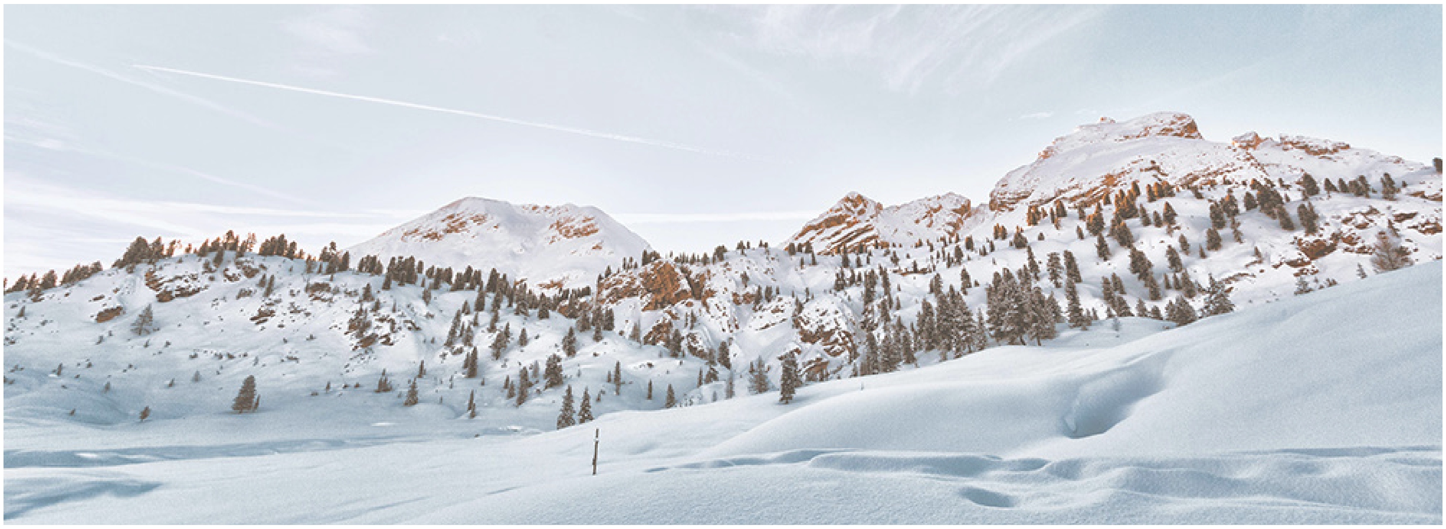
Three Emerging Issues Webinars are held each year, connecting Forum members across Canada in a deep-dive discussion on technical aspects of a specific ERM issue.

2025 Emerging Risks Webinar Dates/Topics:

Thursday, February 27
Topic: Risk Identification and Risk Assessment (Industry CRO Panel)

Thursday, May 22
Topic: The Earthquake Insurance Protection Gap

Thursday, October 23
Topic: Risks of Autonomous Vehicles and Lithium-Ion Batteries



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.

2025 Forum Meeting Dates/Topics:

Monday, March 31
Keynote: **Jacqueline Friedland**
(Executive Director, Risk Assessment and Intervention Hub, OSFI)

Discussion 1 Topic: Increasing Regulatory Demands on the Industry

Discussion 2 Topic: CRO Panel on Regulation

Thursday, September 11
Keynote: CEO Perspective on ERM

Discussion 1 Topic: Ontario Auto Insurance Reform

Discussion 2 Topic: Results of 2025 PACICC Benchmark Survey on ERM

Thursday, November 27
Keynote: CEO Perspective on ERM

Discussion 1 Topic: The 2025 Reinsurance Environment

Discussion 2 Topic: Effect of Changing Demographics on the Industry

For event registration information (pre-registration is required) or to be included in future Risk Officer's Forum member advisories, please contact Ian Campbell, Vice President, Operations, PACICC at icampbell@pacicc.ca or 647/264-9709.

Denika Hall
Editor and graphic design

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