

# Creating Value in Times of Peace

The role of a  
Compensation Fund in  
a period of stability

  
PACICC

2019-06-20



# Canada's P&C industry

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## Canada is the world's 8<sup>th</sup> largest P&C insurance market

- Non-life premiums of \$US 67.8 billion in 2016.
- 3% of the global P&C insurance market.
- More than 220 insurers actively compete.
- Open market with insurers from all over the world.

## Auto insurance accounts for more than half of the market

- IMF's Financial Sector Assessment Program found that, "P&C insurers in Canada write almost exclusively domestic risks, with motor insurance as the dominant line of business."

# 32 Canadian P&C failures in 35 years

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Abstainers Insurance Company  
Alta Surety Company  
American Reserve Insurance Company  
Canadian Great Lakes & Surety Company Ltd.  
Canadian Universal Insurance Company  
Century Insurance Company of Canada  
English & American Insurance Company  
Hiland Insurance Company  
Ideal Mutual Insurance Company  
Maplex General Insurance Company  
Mennonite Mutual Hail Insurance Company  
National Employers Mutual General Insurance  
Northumberland Insurance Company  
Orion Insurance Company plc  
Pitts Insurance Company  
Strathcona General Insurance Company

Advocate General Insurance Company  
American Mutual Liability Insurance  
Beothic General Insurance Company  
Canadian Millers' Mutual Insurance Co.  
Cardinal Insurance Company  
Eaton Bay Insurance Company  
GISCO la Compagnie d'assurance  
Home Insurance Company  
Kansa General International Insurance Co.  
Markham General Insurance Company  
Midland Insurance Company  
Northern Union Insurance Company  
Ontario General Insurance Company  
Phoenix Assurance Company of Canada  
Reliance Insurance Company  
United Canada Insurance Company

# Canadian P&C failures in last 15 years

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**NONE!**

# About PACICC

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- The Property and Casualty Insurance Compensation Corporation (PACICC) was formed in 1989
- Policy limits:
  - Homeowners: \$300,000 per policy
  - Auto and Commercial: \$250,000 per policy
  - 70% of unearned premiums up to \$1,000
- 4.2 full-time staff members
- All liquidation and wind-up files completely closed at end of 2018 and all recoveries returned to insurer members
- No active insolvency files to manage...so...

# Q: What to do in a Time of Peace?

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[https://www.youtube.com/watch?v=rXJ0rAyE\\_mQ](https://www.youtube.com/watch?v=rXJ0rAyE_mQ)

# Practical Advice

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“In Times of Peace...  
Prepare for War”

*Publius Flavius Vegetius Renatus*

4 century AD

# What to do in a Time of Peace?

## The PACICC Approach

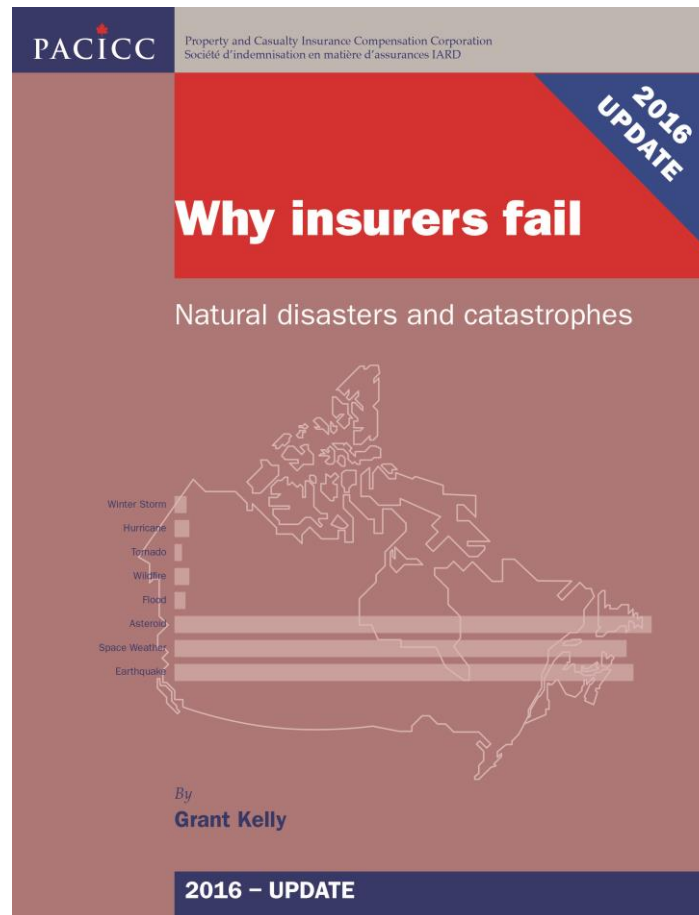
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1. A comprehensive research agenda
  - a) Industry issues
  - b) Why Insurers Fail research series
2. An active industry engagement
  - a) Risk Officer's Forum and Emerging Risks Webinars
  - b) Annual Enterprise Risk Management Member Survey
3. "Preparing for War"
  - a) Intervention Guidelines with all key regulators (federal and provincial)
  - b) Developing a better resolution "toolkit"



# 1. (a) PACICC Research on Industry Issues – Helping shape public policy

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# Key Research Insight – Canada needs a better mechanism in quake scenario

Billions of insured losses

**A catastrophic loss greater than \$35 billion would exceed the capacity of Canada's insurance industry**

**Between \$25 billion and \$35 billion – Multiple PACICC members likely to fail.**

**Some additional insurers could fail due to PACICC assessments. PACICC could experience liquidity problems.**

**Canadian insurers can fully respond to a disaster shock up to \$25 billion.**

Source: PACICC

# 1 (b) The PACICC Research Agenda - Why insurers fail

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Our goals for this applied research series are:

- Increase awareness that insurance failures can and do happen
- Contribute to the literature on insurance failures
- Be a voice for consumers on solvency issues
- Ensure that PACICC remains relevant with policymakers and regulators in Canada

# Why insurers fail - Publications

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2018 – HHH Insurance Limited (Impact of a large company failure)

2017 – Exit strategies

2016 – Farm Mutual Reinsurance Plan (FMRP)

2015 – Capital

2014 – Canadian Millers' Mutual Insurance Company

2013 – Catastrophic risk (updated in 2016)

2012 – Markham General Insurance Company

2011 – New entrants

2010 – Advocate General Insurance Company

2009 – Inadequate pricing

2008 – Maplex General Insurance Company

2007 – Framework paper

# Key research insight – It's usually pricing and reserving

	U.S.	Canada	EU	Asia*
<b>Leading cause of insolvency</b>				
<b>1.</b>	inadequate pricing/deficient loss reserves	inadequate pricing/deficient loss reserves	inadequate pricing/deficient loss reserves	inadequate pricing/deficient loss reserves
<b>2.</b>	fraud	Parent failure	asset risk	asset risk
<b>3.</b>	significant change of business	rapid growth	failed systems	concentration
# of companies	871	35	140	159
Source	A.M. Best (2004)	PACICC (2006)	FSA (2002)	Chen & Wong (2004)
* countries included in this study are Japan, Singapore, Malaysia and Taiwan				

# PACICC website

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All papers available (for free) at:

<http://www.pacicc.ca/publication/why-insurers-fail/>



# We need your help....

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- PACICC requests your help for future possible editions of Why Insurers Fail
- We have run out of good cases to document in Canada...
- We would like to collaborate with any IGS that is interested in researching, documenting and publishing examples from their own jurisdiction
- If interested...please let me know!

## 2. (a) Active Industry Engagement – PACICC Risk Officer's Forum

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The goals for our Risk Officer's Forum are to:

- Discuss and share risk management best practices within the industry
- Review and communicate topical risk management information
- Serve as a risk management resource for PACICC and insurance regulators
- Discuss major existing risks and significant emerging risks within the industry
- Support research of risk management and related governance topics



# Active Industry Engagement – Risk Officer's Forum Meetings

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- Half-day in-person meetings held in Toronto
- Held three times a year
- Members only – no media or regulators
- Encourage frank discussion on current issues
- Feature a guest speaker addressing a topical industry issue
- Also include two one-hour panel sessions featuring senior risk officers and subject-matter experts

# Active Industry Engagement – Risk Officer's Forum Meetings

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## Topics addressed by keynote speakers...

- OSFI overview of current industry issues
- CEO perspective on ERM
- Next generation of cyber risk
- Operational risk management
- Market conduct regulation
- Risk culture
- IFRS 17 – Insurance Contracts

# Active Industry Engagement – Risk Officer's Forum Meetings

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## Topics addressed by industry panelists...

- Reinsurance risk management
- Own Risk & Solvency Assessment (ORSA)
- Internal solvency models
- “Black swan” issues
- Cyber security and telematics
- Changing business insurance models
- Operational risk; reputation risk; model risk
- Risk culture; cascading risk appetite
- Economic capital modeling
- Autonomous vehicles (autos, drones)

# Active Industry Engagement – Emerging Risks Webinars

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- 90-minute live broadcast; three times a year
- Talk show interview-style format
- Feature an industry expert delving into technical aspects of a single ERM issue
- Connects members right across Canada
- Open to non-members, media and regulators
- Member questions received in advance guide discussion in real time
- Copies of all webinars are posted on the PACICC website for future on-demand rebroadcast

# Active Industry Engagement – Emerging Risks Webinars

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## Topics addressed by past webinar leaders...

- Climate change
- Emerging risk identification
- Autonomous vehicles
- On-demand insurance
- Social media – Risks for P&C insurers
- Cyber security
- Legalized access to marijuana
- Artificial intelligence and machine learning
- Demographic and generational change
- “The Smart Factory” -- Innovative new technologies affecting P&C
- Business continuity
- Emerging litigation issues

## 2. (b) Active Industry Engagement – ERM Benchmark Survey

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Our goals for the ERM survey are to:

- Encourage dialogue among industry stakeholders regarding ERM best practices
- Highlight practical elements that underpin a robust ERM program
- Identify areas where further progress may be needed

# Active Industry Engagement – The ERM Benchmark Survey

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- Members have been surveyed six times in eight years – 2011, 2013, 2015, 2016, 2017 & 2018
- Survey is sent to the Chief Risk Officer in each company – one response per firm
- All responses are received in strict confidence
- Summary results are shared with the industry
- 31 standard questions are posed each year
- Results compare answers of large insurers (>\$500M DWP) vs. small insurers (<\$500M DWP)

# Active Industry Engagement – The ERM Benchmark Survey

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## Latest survey results...

- Direct and related-company responses were received from 108 firms in the industry
- Responses accounted for 81.7% of industry DWP
- 17 of the 20 largest firms in the industry responded
- Respondents with >\$1 billion in DWP accounted for 68% of industry market share
- Respondents with >\$500 million in DWP accounted for 75% of industry market share



# Key Research Insight – Members moving toward best practices

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- Company has a documented ERM framework in place?  
96% in 2018 – *87% in 2013*
- Company has a Board-approved risk appetite statement?  
92% in 2018 – *51% in 2013*
- Company maintains a risk register of material risks?  
90% in 2018 – *79% in 2011*
- Formal process in place to identify new/emerging risks?  
72% in 2018 – *68% in 2016*

## 3 (a) PACICC - “Preparing for War”

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- Signed Confidentiality/Non-Disclosure Agreements with key Regulators (Canada/Quebec/British Columbia)
- Created new Committee of the Board with Independent Directors only (none of our Industry Directors have access to confidential information)
- Partnered to develop Intervention Guidelines outlining roles of PACICC at each advancing stage of prudential supervision – prior to need to initiate wind-up/liquidation

# Bases for Intervention

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## **Regulatory Staging (as defined by OSFI – Canada's Federal prudential regulator)**

- Stage 0 – No significant problems/Normal activities
- Stage 1 – Early warning
- Stage 2 – Risk to financial viability or solvency
- Stage 3 – Future financial viability in serious doubt
- Stage 4 – Non-viability/ insolvency imminent

# Stage 1 – Early warning

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## **Co-ordination activities/responsibilities may involve:**

- Superintendent meeting annually with the PACICC Board
- PACICC discussing the results of its analysis of information disclosed to PACICC by the company
- PACICC informing OSFI of any material fact that may be brought to PACICC's attention regarding the company
- OSFI and PACICC's Pre-insolvency Regulatory Liaison Committee ("PIRL Committee") discussing any remedial measures that OSFI has requested the company to undertake

# Stage 2 - Risk to financial viability or solvency

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## **Co-ordination activities/responsibilities may involve:**

- OSFI informing PACICC's PIRL Committee that it has moved the company to Stage 2, the reasons for the change in stage rating and any action that OSFI is planning to take
- PACICC sharing knowledge about the staged company with OSFI, as appropriate
- OSFI informing PACICC's PIRL Committee of results and data obtained from enhanced supervisory reviews, expanded audits and enhanced monitoring
- OSFI commencing contingency planning in consultation with PACICC's PIRL Committee (although in unusual circumstances, this could occur at Stage 1)

# Stage 2 - Risk to financial viability or solvency

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## **Co-ordination activities/responsibilities may involve:**

- Management of PACICC meeting with OSFI as required to discuss all Stage 2 companies in depth.
- OSFI providing PACICC's PIRL Committee with information that may include:
  - reports and results of OSFI's regulatory and special inspections;
  - the most recent actuarial reports, Dynamic Capital Adequacy Testing and Own Risk and Solvency Assessment;
  - the mandate of actuaries, as well as the scope and results of their work;
  - the mandate given to the independent auditor, as well as the scope and results of the auditor's work; and
  - the company's business plan outlining the remedial measures.

# Stage 3 - Future financial viability in serious doubt

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**Co-ordination activities/responsibilities may involve:**

- PACICC's PIRL Committee and OSFI conducting more in-depth and frequent discussions about the company
- Establishing a working group between OSFI and PACICC's PIRL Committee to co-ordinate the intervention with the company. The working group would be chaired by OSFI

# Stage 4 – Non-viability/ insolvency imminent

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## **Co-ordination activities/responsibilities may involve:**

- OSFI informing other relevant regulatory agencies of proposed regulatory intervention measures that will be applied to the company
- Attorney General seeking a Winding-Up Order
- OSFI discussing with PACICC's PIRL Committee the steps to be followed that may involve:
  - taking control (assets of company)
  - arranging for interim management
  - planning for the conclusion of the control period and proceeding to liquidation, and
  - identifying a liquidator and/or appointment of a standby agent



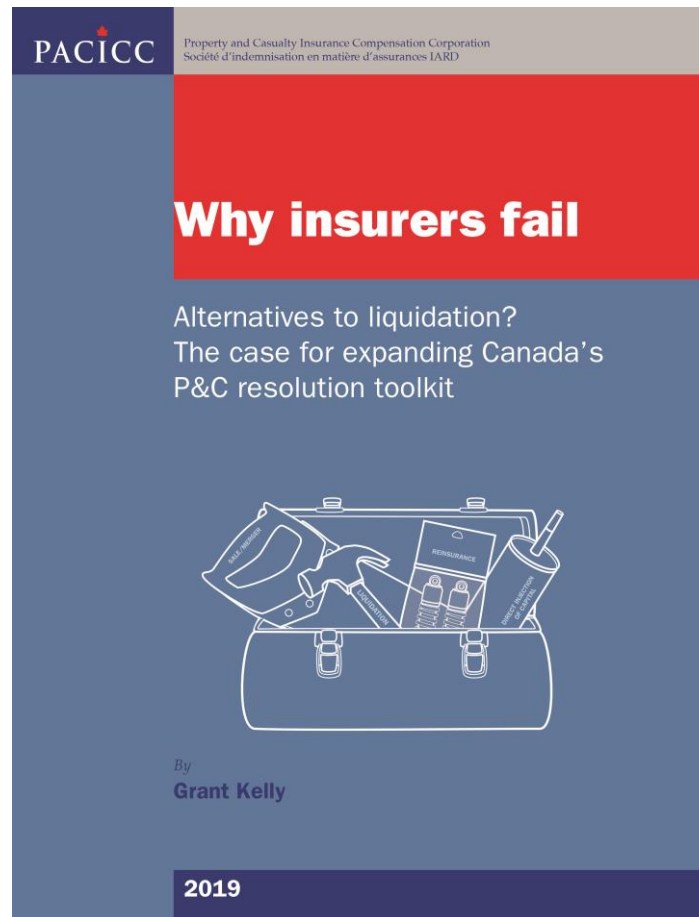
# Stage 4 – Non-viability/ insolvency imminent

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**Co-ordination activities/responsibilities may involve:**

- PACICC's PIRL Committee discussing with OSFI the implementation of the liquidation contingency plan prepared during Stage 3.

# 3 (b) Developing a better “toolkit”



## 3 (b) Developing a better “toolkit”

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Objectives of this latest research are to:

- Engage the industry and our regulators in a dialogue regarding potential for solvent resolution in case of larger insurer default
- Develop potential tools for use in such scenarios well in advance of actual need
- Update our governance model and resource capabilities to ensure we are ready to respond when the next failure is imminent...

