IFIGS
Success Stories

Featured Insolvency

- ***Company*** **Confederation Life Insurance Company**
- ***Insurance*** **Life & Health (L&H)**
- ***Country*** **Canada**
- ***IGS*** **Assuris – Canadian Life and Health Insurance Compensation Corporation**

About Confederation Life

Confederation Life Insurance Company (Confederation Life) was a Canadian mutual life insurance company headquartered in Toronto, Ontario. With 1.7 million clients in Canada prior to its insolvency in 1994, Confederation Life was the fourth-largest life insurer in the country and the 30th largest in North America. In addition to its Canadian operations, the group operated extensively in the United States and the United Kingdom through branches and subsidiaries, with assets of approximately $8 billion and $6 billion respectively, compared with about $4 billion in Canada.

The company offered a broad range of life insurance, annuity, and group benefits products. Its size, complexity, and international footprint made its failure one of the most significant life insurance insolvencies in Canadian history and a defining test of Canada's policyholder protection and resolution framework.

Causes of Failure

Confederation Life's failure was driven by an unsustainable growth strategy, significant asset concentration, and emerging liquidity pressures:

- *Aggressive expansion into higher-risk business lines* – Rapid balance-sheet growth through deposit-type products, trust company activities, and U.S. structured settlement and corporate-owned life insurance business, supported by highly competitive GIC rates and sensitive to credit ratings.
- *Heavy concentration in commercial real estate and mortgages* – Over 70% of invested assets were concentrated in these sectors. When real estate markets declined in the early 1990s, losses were disproportionately severe due to the scale and recency of exposures built up during rapid growth.
- *Increasing reliance on short-term funding and reduced liquidity* – Use of commercial paper and repurchase agreements encumbered liquid assets. As confidence deteriorated, funding sources withdrew, ratings pressure intensified, and institutional investors did not renew maturing investments—triggering an acute liquidity crisis.

Impact on Policyholders

At the time of insolvency, Confederation Life had approximately 260,000 individual policyholders in Canada and about 1.5 million members covered under group insurance arrangements. Given the long-term nature of life insurance and annuity contracts, liquidation without transfer would have posed serious risks to policyholders, including loss of benefits, forced replacement at higher cost, or loss of insurability. Maintaining continuity of coverage and public confidence in the life insurance system was therefore a paramount objective of the resolution.

Role of Assuris

Assuris played a central role in designing and executing the resolution strategy. Following the Superintendent's assumption of control, Confederation Life was placed under court protection pursuant to Canada's *Winding-up and Restructuring Act* (WURA), and a liquidator was appointed. Assuris worked closely with regulators and the liquidator as a policyholder protection organization and priority creditor to design a resolution strategy centered on transferring business to solvent insurers rather than cancelling contracts or paying cash compensation.

Given the size and complexity of the company, the resolution was executed through a series of coordinated and sequenced transactions. Lines of business were marketed separately and sold in an order designed to preserve value and manage liquidity. Group life and health business was transferred first, followed by individual life, immediate annuities, and deferred annuities and registered retirement income funds (RRIFs). Transfers were largely completed through assumption reinsurance arrangements with multiple Canadian life and health insurance companies.

Assuris provided financial support where necessary to ensure policies transferred at protected levels, supplied liquidity to facilitate timely transactions, and worked with the liquidator to avoid forced asset sales. This approach preserved goodwill, minimized disruption to policyholders, and maintained confidence in the Canadian insurance system.

Recovery Efforts and Outcomes

The Confederation Life resolution achieved a 100% recovery for Canadian policyholders, despite the scale and complexity of the failure. Cross-border coordination with U.S. proceedings was critical to this outcome, with cooperative negotiations ultimately increasing recoveries for the Canadian estate. Assuris' total net cost was limited, with partial reimbursement received through the liquidation process. The orderly resolution avoided widespread litigation, preserved asset values, and demonstrated that even the failure of a large and complex life insurer could be managed without policyholder loss or taxpayer exposure.

The Confederation Life experience reinforced several lessons of direct relevance to insurance guarantee schemes globally:

- Unsustainable business models and asset concentration can undermine large insurers
- Liquidity risk can emerge relatively rapidly even in long-term liability business models
- Sequencing of transfers is critical to maximizing value
- Avoiding fire-sale liquidation preserves outcomes
- Cross-border coordination materially improves recoveries

The case also illustrates the essential role of an industry-funded guarantee scheme with the ability to provide liquidity, financial support, and technical expertise. Assuris' active involvement at all stages of the resolution process helped protect policyholders, stabilize market confidence, and reduce ultimate costs to the industry, making Confederation Life a clear example of a successful resolution for policyholders.

About Assuris

Assuris is an independent, not for profit, industry-funded compensation organization founded in 1990. Our mission is to protect Canadian policyholders if their life and health insurance company fails.

Every life and health insurance company authorized to sell insurance in Canada is required, by the federal, provincial, and territorial regulators, to become a member of Assuris under the Insurance Companies Act of Canada. Fraternal benefit societies and prepaid medical services companies can opt to become a member of Assuris. Member companies cannot terminate their membership as long as they have active business in Canada.

Assuris is designated by the federal Minister of Finance under the Insurance Companies Act of Canada. Assuris is recognized by the Autorité des marchés financiers (AMF) as the compensation body whose members are Quebec-chartered life insurers.

Assuris acts independently in the public interest and balances the interests of the life and health industry and government/regulators with our resolution objectives:

- *Protect policyholders and support the transfer of benefits*
- *Minimize the cost of failure to the industry*
- *Contribute to public confidence in the insurance sector and Canadian financial stability*

Experience with past failures and current work with restructuring professionals ensures that Assuris maintains the resolution expertise to develop tailored solutions to life and health insurance industry-specific issues.