IFIGS
Success Stories

Featured Insolvency

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

About Union of Canada Life Insurance Company

Union of Canada Life Insurance Company (Union of Canada) was a small mutual life insurer headquartered in Ottawa, Ontario, with most of its business concentrated in the Sherbrooke region of Quebec. Prior to its liquidation in 2012, the company had approximately $100 million in assets.

Union of Canada primarily served a niche francophone market but lacked scale, diversification, and access to capital. Its small size and limited strategic positioning made it particularly vulnerable to sustained economic pressures.

Causes of Failure

The failure of Union of Canada was driven by structural weaknesses and exposure to a prolonged low interest rate environment:

- *Unsustainable business model* – No clear competitive advantage and persistent unprofitability eroded surplus
- *Limited access to capital* – As a mutual insurer, Union of Canada had limited ability to raise additional capital
- *Asset-liability mismatch* – Long-duration liabilities were supported by shorter-duration assets, exposing the company to interest rate risk
- *Declining interest rates* – A sharp drop in 2011 accelerated financial deterioration
- *Governance and valuation weaknesses* – Concentrated decision-making and aggressive actuarial assumptions masked underlying risk

Supervisory concerns had been identified early, but intervention options were limited while regulatory capital ratios remained above operating thresholds.

Impact on Policyholders

Although Union of Canada was small, its failure still posed risks typical of life insurance insolvencies. The long-term nature of policies can expose policyholders to loss of benefits, reduced coverage, or disruption if contracts are terminated rather than transferred.

Maintaining continuity of coverage and preserving confidence, particularly within a concentrated regional policyholder base, were key objectives of the resolution.

Role of Assuris

Following the company's failure, on February 2, 2012 Union of Canada was placed into liquidation under Canada's *Winding-up and Restructuring Act (WURA),* a court-supervised insolvency process for financial institutions. Assuris worked closely with the supervisor and the court-appointed liquidator to design and execute the resolution strategy.

Given the company's small size, the resolution was pursued as a single-transaction transfer rather than multiple, staged transactions. The business was marketed as one block, resulting in two credible bids. Potential purchasers showed limited interest in non-fixed income assets, particularly the real estate asset backing policy liabilities.

Assuris supported the evaluation of bids and compared outcomes to a potential run-off scenario. On May 11, 2012, an assumption reinsurance agreement was reached with a Quebec-based mutual life insurance company, under which policy liabilities were transferred at protected levels along with supporting assets, excluding the real estate holding.

To support the transaction, the acquiring insurer requested Quebec provincial bonds to back the liabilities. The liquidator did not have sufficient liquid assets to acquire these bonds. Assuris therefore used its liquidity fund to purchase the required assets and enable completion of the transfer. The real estate asset was retained and subsequently sold by the liquidator, with proceeds partially reimbursing Assuris.

This approach enabled an orderly transfer of policies, avoided disruption to policyholders, and preserved value by preventing forced asset sales.

Recovery Efforts and Outcomes

The resolution of Union of Canada achieved strong outcomes and demonstrates that established resolution tools can be effectively applied to small insurers. Approximately 95% recovery was achieved from the estate, with full policyholder protection within Assuris' coverage limits. The total cost to Assuris was approximately $5 million, paid from Assuris' liquidity fund surplus, and policies were transferred with minimal disruption.

The case also highlighted valuation uncertainty, as post-failure reassessment found that prior assumptions, while within accepted standards, were overly optimistic.

Key lessons include:

- Business model, profitability, and capital flexibility matter
- Interest rate exposure and ALM mismatches can be decisive in stress environments
- Valuation assumptions require robust challenge where buffers are thin
- Resolution tools are scalable, but asset quality affects transferability and buyer interest
- Liquidity is critical to executing timely and effective transactions

This case illustrates how established resolution tools can be effectively applied to smaller insurers to deliver orderly outcomes and protect 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.